

S. HRG. 109-126

PROVIDING QUALITY POSTSECONDARY EDUCATION: ACCESS AND ACCOUNTABILITY

HEARING OF THE COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS UNITED STATES SENATE ONE HUNDRED NINTH CONGRESS FIRST SESSION ON

EXAMINING ACCESS AND ACCOUNTABILITY RELATING TO PROVIDING
QUALITY POSTSECONDARY EDUCATION, FOCUSING ON THE FEDERAL
GOVERNMENT'S ROLE IN MAKING POSTSECONDARY EDUCATION FI-
NANCIALLY AVAILABLE FOR AMERICANS

APRIL 28, 2005

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THURSDAY, APRIL 28, 2005

**U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
*Washington, DC.***

The committee met, pursuant to notice, at 10:00 a.m., in Room 430, Dirksen Senate Office Building, Senator Enzi, chairman of the committee, presiding.

Present: Senators Enzi, Alexander, Burr, Dodd, Bingaman, and Murray.

OPENING STATEMENT OF SENATOR ENZI

The CHAIRMAN. Good morning. I call the hearing to order. I want to thank the witnesses for participating in today's hearing.

It has been 40 years since Congress first enacted the Higher Education Act. During that time this important program has provided billions of dollars in student financial assistance to millions of students. I am pleased to be able to hold this hearing as we continue the process of reauthorizing the Higher Education Act. In fact, there is no better way to mark the 40th anniversary of the enactment of this legislation than by continuing the Federal commitment to postsecondary education and every student's dream of a higher education.

The American postsecondary education is renowned throughout the world. More than 6,000 colleges and universities enroll more than 14 million students, providing access to all types of academic and training programs. We are doing our part in Wyoming but we only have a handful of the total. We have only one 4-year university and 7 community colleges. The recent opening of the University of Phoenix campus in Cheyenne brought us to a grand total of 10 accredited institutions of higher education in the State, and that is the smallest of any State but Alaska.

This country's institutions are good enough that students all over the world make enormous sacrifices to be able to come here and study. Today's students at these schools will be tomorrow's leaders in the fields of health care, technology, manufacturing, business, just to name a few. These schools are also helping to prepare tomorrow's generation of teachers, who will help our children to begin to mold their future and shape their destiny in classrooms throughout the country.

Today more postsecondary students are receiving Federal Pell grant assistance than ever before. Over 5 million students received

Pell grant assistance in the 2003–04 school year, with the greatest number of those students enrolled in public 2-year colleges. All together the Federal Government has provided or helped to leverage more than \$70 billion in student financial aid in the past year.

Enrollment in postsecondary education has increased for the past 30 years and it is expected to continue to do so, particularly in 2-year programs. By 2008 the number of students enrolled in postsecondary education will have doubled from 1970 levels.

At the same time, the face of today's average college student is changing. The average student enrolled in postsecondary education or training these days is most likely to be older than 24 years. They are more likely to be independent and more likely to be female. These changes should not surprise any of us. Higher education in America is in the middle of a revolution. We are facing monumental changes in the American workforce and the need for employees with a higher education is growing at a faster rate than ever.

As the American workforce changes, so do the needs of today's college students. The need to provide broad access and strong accountability with respect to higher education has never been greater. Our economy is on the threshold of the most significant transformation in history. In the next 10 years about 12 percent of the workforce will be leaving their careers behind for retirement. In addition, today's jobs are requiring more of workers than ever before. It is estimated that by 2015 three-quarters of all workers will have some postsecondary education or training, but 2020 we will need 14 million more skilled workers in this country than we are currently able to provide.

As we stand on the brink of this workforce revolution, Congress has an important opportunity to meet the coming challenges head on with the reauthorization of the Higher Education Act. The availability of seamless, lifelong education opportunities is critical for our long-term competitiveness. In this global economy learning is never over, school is never out. The Higher Education Act is part of the comprehensive approach to education and training that this country needs. This approach must effectively coordinate programs such as the Workforce Investment Act, the Perkins Career and Technical Education Act and other Federal education and training initiatives to ensure that we remain competitive.

Congress must also consider change to the law that will help today's students attend and succeed in college, such as permitting greater access to distance education, ensuring that students have reliable information about the cost of attending college, and that schools are partners with businesses in supporting a strong American economy.

Today's panel will help build on the themes that we have looked at through a number of hearings so far this year. Our panelists will look at issues relating to access and accountability with higher education. They will suggest ways we can ensure more students are able to attend postsecondary education and that they leave these programs with a certificate or degree prepared for future success, whether that be in the workforce or additional education or something else all together.

I look forward to the testimony of our witnesses. I hope this hearing will help provide the committee with information we need to take a great step forward in securing our long-term competitiveness. Postsecondary education will play a critical role in that process. I look forward to working with my colleagues on the committee in a bipartisan manner and in the Senate to reauthorize the Higher Education Act.

Senator Dodd.

OPENING STATEMENT OF SENATOR DODD

Senator DODD. Thank you very much, Mr. Chairman. Let me begin by thanking you for the hearings that we are conducting on this critically important piece of legislation.

It is always dangerous to call one piece of legislation the most important, but I cannot think of another piece of legislation as important as the reauthorization of the Higher Education Act. It has been a part of our critical success as a nation going back to the earliest days of our republic. One of the first acts ever passed by Congress was the Northwest Ordinance at the very end of the 18th century as we were a new Government; this act set aside lands for education. We passed the Morrill Act in the middle of the Civil War. Here was a nation preoccupied with how it would survive as a people, and yet Abraham Lincoln and the Congress found the resources and the time to create the land Grant Colleges. The University of Connecticut in my State is one of those institutions that was founded as a result of the Land Grant College Act under Senator Morrill of Vermont.

Even before the end of World War II the GI Bill was enacted into law, and then of course the Higher Education Act later on, but throughout our history, even at times of great crises we have always understood the value of education, and in the 20th century the importance of a higher education. There are a lot of reasons why we are successful as a people, but if I had to pick one quality more so than any others, it is our commitment to education over the years. I think it is tremendously worthwhile that we are going to spend as much time as we are this year on this issue.

You have identified already, Mr. Chairman, in your opening comments the statistics today. 6,600 roughly degree and nondegree granting institutions are eligible to receive Federal aid as higher education institutions. They enroll more than 15.5 million students, 15.6 million to be exact. Of those 6,600 institutions, 75 percent of students are enrolled in public colleges or universities. Over 70 percent of those students receive financial aid, which is a tremendously high number.

Since the inception of the Higher Education Act the face of postsecondary education has changed dramatically. I think it is worth noting what has happened in these last 40 years or so. There were 5.7 million students in 1965 when we passed the Higher Education Act, we have more than 10 million more students today, 40 years later. In 1965 women composed 38 percent of the student body. Today, more than half of the student body is women. In 1965 only 6 percent of the students identified themselves as being black. Today African-Americans make up more than 14 percent of the incoming class. Hispanic enrollment has increased from less than one

percent in 1975—to more than 9 percent in the year 2000. Today 73 percent of students are nontraditional students, as the chairman has pointed out, in some way or another. They are either older, have children, are more likely to be working or are attending institutions on a part-time basis.

When I think of higher education, Mr. Chairman, I find myself thinking about access. That is an important question obviously. It has to do with academic access, to what extent we have prepared students for their university experience. It has to do with information, to what extent we made students aware of their higher education opportunities. And it has to do with cost, to what extent can Americans afford to go on to a higher end. More and more I am particularly concerned, as I know many of my colleagues are, with the issue of cost. According to the College Board last year the average cost of attending a public 4-year college including tuition fees, room and board, increased by 7.8 percent to over \$11,000. For private 4-year colleges the average cost increased 5.6 percent to over \$27,000.

I asked my staff, because as my colleagues know, as the father of a 2-month-old and father of a 3½-year-old, I thought it might be interesting to extrapolate what kind of costs I would be looking at 15 or 18 years from now, and I had better find another job quickly here if I intend to do this. [Laughter.]

I think at my public institution I will be paying \$31,000 for my oldest to go to college, if these numbers hold up over the coming years. At any rate, cost is an issue we will have to confront in the coming years.

In comparison, how are family incomes holding up? The share of family income required to pay total college cost has increased to 29 percent of an average family's income for public university tuition payments, and 41 percent of a family income to pay private university tuition, 29 percent and 41 percent. These are huge numbers, Mr. Chairman, I know you agree. In comparison, the average family mortgage payment is 29 percent of income. Clearly, college is not just an expensive investment, it is becoming unaffordable for millions and millions of people in this country.

Worse still is the amount of debt students are taking on. In my State of Connecticut the average student graduates in 4 years with over \$15,000 in debt. Nationally, the figure rounds out closer to \$17,000. If a student comes from a low-income family or is a minority, they are more likely to graduate in significant debt. I have to wonder to what extent does student indebtedness dictate career decisions. Are students foregoing careers in public service, education, and the like, because they just cannot afford to do it any longer?

I am concerned about the lack of information many parents have as it relates to financial aid. A recent poll shows that 45 percent of low-income and 50 percent of hispanic families have no idea how they are going to put their children through college. The survey also showed that low-income families receive financial aid information nearly 2 years later than upper income families, and lower income families are least likely to be able to identify common sources of aid.

I am concerned about the basic academic preparation at the high school level, keeping kids out of college or causing them to drop

out. In March, Cal State officials released a study that showed that only 43 percent of first-time freshmen were sufficiently prepared for college work in both English and mathematics. Similar figures have been reported throughout the country. Suggestions for changing this include making college preparatory curriculum the standard for all students, providing financial aid commitments earlier so that students begin to take the prospect of college seriously, or more seriously, at a younger age, and using data and assessments to develop effective support programs so that all students can achieve at a college level. Expansion of the TRIO program, programs that help motivate and prepare low-income students for college, would also I think be helpful.

As global competition intensifies, and I know again all my colleagues understand this and I am sure our panelists do as well, I find myself worried, Mr. Chairman. Will we be able to compete in a world today that is very, very different than it was even a few years ago in terms of the level of educational support, with our major competitors globally? The only way to ensure that is to ensure a world-class educational system for our children here in this country, to ensure that they are prepared and can access it once accepted, and then ensure that we do all we can to keep students in school until they graduate.

One of today's witnesses will discuss research showing that fewer than 40 percent of college students graduate in 4 years. Again, we understand with the nontraditional student there is some rational for that. For minority students the rates are even lower. Today we will also touch upon the issue of accountability, and accountability for Federal dollars is something I strongly support. I would, however, caution the committee to proceed slowly and thoughtfully as we explore the proposals that are currently out there.

Mr. Chairman, it is with great hope that I attend this morning's hearing. Again, as I said at the outset, I think there is no other set of issues that is as important as these and the cost issue. If we just look at this in terms of raising additional dollars to meet demand without looking at what can be done to hold down costs, the 7.8 percent number rising all the time, outstrips almost anything else occurring in our economy. We have with us today a former college president and someone who knows a great deal about the subject in our colleague from Tennessee. I know when I talk to my own college presidents about this, they get a little tense when I start talking about what can be done to bring down these costs, but we have got to figure some way to do this, otherwise these numbers are going to make it almost impossible for educationally eligible families to meet these responsibilities.

So I thank you immensely for having today' hearing.

The CHAIRMAN. Thank you.

Senator Alexander, as Subcommittee Chairman for Education, would you like to make some comments?

OPENING STATEMENT OF SENATOR ALEXANDER

Senator ALEXANDER. Thank you, Mr. Chairman and Senator Dodd, and I appreciate the chance to be here, and I thank the chairman for his approach on this, getting early on into the impor-

tance of higher education and thinking of it as part of a seamless learning process.

I would only say these things briefly, and then I will look forward to listening. I am convinced that we have an extraordinary asset in our system of colleges and universities. I remember President Cardozo of Brazil, who was here at the Library of Congress before he went back, was asked by Senator Hutchison what he would take back to Brazil about the United States. He said the American university, there is nothing like it in the world. And I believe that.

I also think our next big surprise coming is to our pocketbooks. First big surprise was terrorism; next big surprise is to our pocketbooks and that we need to make sure over the next 10 years that we take a look at our brain power because that is where our standard of living comes from. While are outsourcing jobs we have been insourcing brains, and that is why we produce a third of all the money in the world for only 5 to 6 percent of the people. So how we keep doing that is what Senator Enzi is focusing on and it is exactly the right focus.

I also believe that we stumbled into the right model for higher education. In some miraculous way after World War II with the GI bill for kids. We did not give the Federal dollars to Notre Dame and the University of Tennessee, we gave it to the soldiers and they spent where they wanted to. Our system of K through 12 would be much better off if we did that which is another debate.

We did the same thing with the Pell grants and we did the same thing with the Stafford loans, and so as a result we have this system where no one tells me I have to go to the University of Alabama, I can choose to go to Vanderbilt or the University of Tennessee or even Connecticut if I wanted to, and I can go to a for-profit institution—

Senator DODD. Even Connecticut?

Senator ALEXANDER. Even Connecticut. [Laughter.]

I can go to a for-profit institution—

The CHAIRMAN. Or Wyoming. [Laughter.]

Senator ALEXANDER. So I will be keeping my eye—or Wyoming—I will be keeping my eye on this model we have in higher education, which is, number one, autonomy for the institutions, and number two, Federal dollars, and number three, following students to the institution of their choice.

The last two comments I would make have to do with the cost issue. I want to look at the cost issue too, but I would emphasize that community colleges' tuition is about \$2,000 a year. It is a pretty good bargain. University of Tennessee, University of North Carolina, pretty good institutions, tuition there is a few thousand dollars a year, maybe 3 or 4. Costs are going up but I think we ought to understand the reason. I think it is because State support is going down. I mean the tin cup is in Nashville, not Washington. Federal dollars for Pell grants are up 40, 45 percent, two or three times what State support for higher education is up in our State and probably other States.

So the best thing perhaps we could do about the cost of higher education is to get the Medicaid program under control so States

did not have to spend all their money on health care and had a little left for the colleges.

So, finally, I will be looking at these issues: simplicity of applications, this committee has done some work on that and there is some good work, Mr. Chairman, that could be part of the Higher Education bill to simplify the forms for grants and loans; year-round schools and year-round attendance, which means amending how Pell grants and loans are dealt with.

I would like to see deregulation of colleges and universities, not more regulation of colleges and universities because I think autonomy is why they are good. I want to make sure we continue to attract foreign students to help us have a high standard of living in this country, and to go home and spread democracy. I want to find out whether State funding is damaging the prospects for higher education in the future. And I want to make sure that we have ample funds for research because half our new jobs since World War II came from advances in sciences technology.

So I can think of no more important subject, and I am delighted the chairman is holding this hearing.

The CHAIRMAN. We will now hear from our panel of witnesses. I will introduce our five witnesses. They will give their statements and then we will move to questions. We do have a great panel of witnesses who will speak on providing postsecondary education and increasing access and accountability.

The first member of our panel is Ms. Kati Haycock. Ms. Haycock is one of the Nation's leading child advocates in the field of education. She is the director of the Education Trust, which is a Washington-based organization that provides assistance in improving student achievement in education.

The second member of our panel is Ms. Trinity Thorpe. Ms. Thorpe is a graduate of Laramie Senior High School in Laramie, WY and is currently a junior at Pepperdine University. She is also the recipient of the Gates Millennium Scholarship. We are very proud of Ms. Thorpe's success and her academic achievement, and we hope other students from Wyoming will follow in her footsteps. I mentioned to her earlier that she is probably the youngest person testifying on the Hill today, and she said, "Actually, there are two of us from Pepperdine testifying today." [Laughter.] So Pepperdine is well represented on the Hill today, and as we will see in a moment, so is Wyoming.

The third member of our panel is Mr. Brian Bosworth. Mr. Bosworth is the president of FutureWorks, which is a private consulting and policy development firm that helps design and build the strategies and institutions that promote sustainable skill-based regional economic growth.

The fourth member of our panel is Mr. Robert Shireman. Mr. Shireman is the director of the Institute for College Access and Success. He also served on the Federal Advisory Committee on Student Financial Assistance, and is an adviser at the Aspen Institute.

And our final member of the panel is Mr. Phillip Van Horn. Mr. Van Horn is the president of the Wyoming Student Loan Corporation. In addition, Mr. Van Horn was appointed by the Governor of Wyoming to chair the Wyoming Workforce Development Council in 1999 through 2002 and is still an active member of that council.

I have known Mr. Van Horn for many years, and I am pleased that he was able to be here with us today and provide this excellent information that always comes out of Wyoming.

I would ask all of the members of the panel to limit their oral statement to 5 minutes. Your entire written statement will be included in the hearing record. And I would mention that after all of you finish your statements, then we will have questions from the Senators, and then after that the testimony will remain open so that you can expand on remarks if you have some other things you wanted to comment on. Also since you are on the panel, we have the opportunity then to ask you some questions in writing. Sometimes the questions are more detailed than what you might have information for here at the hearing, or that anybody in the general public might be interested in. So we would appreciate the answers to those questions as well.

So let us begin. Ms. Haycock.

STATEMENTS OF KATI HAYCOCK, DIRECTOR, EDUCATION TRUST; TRINITY THORPE, STUDENT, PEPPERDINE UNIVERSITY; BRIAN BOSWORTH, PRESIDENT, FUTUREWORKS; ROBERT M. SHIREMAN, DIRECTOR, THE INSTITUTE FOR COLLEGE ACCESS & SUCCESS, INC.; AND PHILLIP F. VAN HORN, CHAIRMAN OF THE BOARD AND PRESIDENT, WYOMING STUDENT LOAN CORPORATION, AND PRESIDENT AND CEO, WESTERN STATES LEARNING CORPORATION

Ms. HAYCOCK. Thank you, Mr. Chairman, Senators, members of the committee.

As I think all of you know, for many decades the American education system led the world on almost every measure. We had the highest high school completion rate in the developed world. We had the highest college going rate and the highest proportion of our young people college educated.

Higher education, as all of you know, has long been one of the main drivers of opportunity, of social mobility, and of economic progress in our country.

Over the past decade, however, a surprising array of countries has run right past us. We have slipped from first in the world to 17th in high school completion rates. We have slipped from first to 7th in college entry rates. We no longer even lead in a proportion of our young people who get a college diploma.

Moreover, while our results remain essentially flat, a surprising array of countries is poised right beneath us and has a much steeper upward trajectory, will soon pass us. And sadly, we are the only developed country in the world where the literacy levels amongst yours and my generation are actually higher than those of our children.

Underneath that overall story, as dismal as it is, the numbers are even more worrisome for low-income students and students of color. They are less likely to complete high school, less likely to enter college and less likely to complete once they get there. We have got to get our systems back on track for the students, for our democracy, and for our economy.

In reauthorizing the Higher Education Act this year, you have an opportunity to address at least some of the major problems that

interfere with these results. Let me mention just three things that you could do.

First, preparation. Every year thousands, hundreds of thousands of American high school students follow all the rules. They take all the courses they are required to take, they pass all the tests they are required to pass, with the full expectation that if they do so they will be ready for the next level of education. Unfortunately, as I think you know, when they get to college—and most of them are now going—they fall very short in many cases of having the skills and knowledge they need to succeed there. Nearly a third actually end up in high school level course, otherwise known as remedial or developmental course instead of the college courses that they expected to start. Why is this? Because we have not aligned the standards for high schools with the requirements of college and of today's workplace.

Now, fortunately, as I think you know, many States are beginning now to do just that, some through the American Diploma Project, others on your own. You could help by providing some incentive funding for States that are willing to give their high school diploma real meaning by aligning their standards for high school exit with the standard courses requirements and assessments necessary to show readiness for both college and for work.

Second, money matters. It did not help much if students are prepared for college if they cannot afford to go. The financial burden, as all of you know, of paying for college is a huge barrier for many young people. Low-income young people have been particularly hard hit by increased college costs, in part because of the diminished buying power of the Pell grant program. It is very important that you act to restore educational opportunity for our low-income young people by committing to a 5-year trajectory of restoring the buying power of the Pell grant program. Students also need to know about all this, so continuing your support for the TRIO and GEAR UP programs is important as well.

College education, as all of you know, is in fact the surest route out of poverty, but it is now a route for only a handful of low-income young people. College going rates amongst our highest achieving low-income students are now exactly the same as college going rates amongst our lowest achieving high-income students. And if you look at American families in the bottom economic quartile, ask how many of their kids have a bachelor's degree by age 26, the answer is 7 out of 100; for upper middle class kids it is 60 out of 100. Hugely important that we turn that around.

Finally, college success. Far too many students who enter our colleges and universities fail to earn a degree. Overall fewer than 4 in 10 of students get a 4-year degree in 4 years. Only about 6 in 10 get one in 6 years, and the rates are much worse for low-income students and students of color.

Now, because the number of students entering colleges and universities has continued to go up, not much attention has been devoted to this success problem. Better preparation and more generous financial assistance would of course help, but it turns out that what colleges and universities do matters a lot too.

As I think some of you know, this last year was the first time that the Federal Government released data publicly on the success

rates of colleges and universities around the country. And it turns out that even after you control for factors like the size and mission of the institution, its financial support and the academic and financial characteristics of its students, some colleges routinely do a much better job at getting their students through to a degree. And these colleges are a range of institutions from Elizabeth City University, a historically black college in North Carolina, to Miami of Ohio, a much more elite college, to East Carolina University. These are institutions that when compared with institutions that serve students just like theirs routinely do a far better job than their peers.

But even as individual institutions distinguish themselves, what is important for you to remember is that our higher education system as a whole is stuck. We have made virtually no progress. Improving student success is now an option. You can by asking States to put in place accountability systems that will set some stretch goals for our colleges and universities, ask them to step up to the success achieved by their counterparts. You can begin to get some much-needed progress in improving student success across the country.

Thank you very much.

The CHAIRMAN. Thank you.

[The prepared statement of Ms. Haycock follows:]

PREPARED STATEMENT OF KATI HAYCOCK

For many decades, the American education system led the world on almost every measure. We had the highest high school completion rate, the highest college-going rate, and the highest proportion of college-educated citizens. Collectively, our colleges and universities are unparalleled, attracting students and scholars from all over the world.

Higher education has long been one of the main drivers of opportunity, social mobility, and economic progress in our society. And that promise has been supported through Federal policy—through tax-exempt status, establishment of land-grant institutions in the 19t century, the G.I. Bill after World War II, and Pell grants since 1972. Our historical national commitment to education has paid fantastic dividends; the United States has long had the best-educated, most productive workforce in the world.

Over the past decade, however, we have allowed a surprising array of countries to pass by us.

- We are now 17th in the developed world in high school graduation rates;
- We are now 7th in college-entry rates;
- And we are no longer first in the proportion of young people completing a college degree.

Moreover, we are the only developed country where college-education rates are not improving and the only developed country where the literacy levels of older adults are higher than those among young adults.

Underneath this overall story, the numbers are even more worrisome for low-income students and students of color. These students are less likely to graduate from high school; those who do graduate are less likely to be prepared for college or work. To make matters worse, low-income students and students of color who do go on to college are also less likely to complete college after entering.

What is going on here? Simply put, there are problems at several key points in the education pipeline, each of which must be addressed to turn these patterns around.

Better Aligning High School and College

Every year, hundreds of thousands of American high school students follow all the rules—that is, take all of the courses they are required to take and pass all of the required tests—expecting that, if they do so, they will be prepared for the next level of education. Unfortunately, when they get to college—as most do—they often aren't even close to prepared for the challenges they face there. Nearly one in three end up in remedial—or high school level—courses. Why? Because the standards for

American high schools have not been aligned with the requirements of college and today's workplace.

Fortunately, many States are beginning to do just that—some working through the American Diploma Project, others on their own. You could help by providing incentive funding for States willing to give the high school diploma real meaning by aligning their standards, course requirements, and assessments across high school and college.

Reauthorization of the Higher Education Act provides Congress with several opportunities to promote better preparation for work, for college, and for life. First, Congress should support State efforts to align the standards for high school exit with those for beginning postsecondary study. With a relatively small investment, Congress could help States to link their K–12 and higher education data systems, would allow States to significantly advance alignment and articulation activities. What should States have to do to receive these funds? Quite simple:

- K–12 and higher education systems need to agree on common definitions of the knowledge and skills required to begin postsecondary work.
- K–12 systems need to review State standards and course requirements required for a high school diploma and develop a process to bring them into alignment with the skills and knowledge required to begin postsecondary work.
- K–12 and higher education together need to agree on common assessments for measuring whether students possess the skills they need, and a curriculum that prepares students adequately for the challenges of postsecondary education.
- Higher Education needs to ensure that teacher preparation is aligned—both in terms of quality and quantity—with the expectations of what needs to be taught in the K–12 system.
- States willing to make a college- and work-ready curriculum the default curriculum for all students should receive additional Federal financial assistance to provide the professional development that will be required.

In addition, Congress can provide extra encouragement to low-income students to prepare for success in postsecondary education by providing additional financial aid to low-income students who have completed the college prep curriculum.

Many wonder whether the emphasis on preparing students to be successful in college neglects the needs of our non college-bound students. Large scale, national research, including research by the American Diploma Project and others, has established that the academic skills required for work are comparable to those required for college. The point is that high school graduates should be prepared to choose college or work. Right now, they are not being adequately prepared for either.

Money Matters

Second, it is clear that some of the students who should be going on to college aren't. In the most recent year for which data are available, for example, low-income students in the top quartile of academic achievement nationally are entering college at rates exactly the same as high-income students in the bottom quartile of academic achievement. Though college-going rates for all groups of students are up, the gap in college attendance between White high school graduates and graduates of color is larger today than it was two decades ago.

In a century where some postsecondary education is essential to gain a foothold in our economy, this is a tragedy for the young people themselves, for their families, and for our country. Providing financial incentives for students to complete a more rigorous college-prep curriculum would begin to address another contributor to low-graduation rates—the cost of attending college. But this step alone is by no means sufficient. The financial burden of paying for college is a huge barrier for many young people. Low-income young people are particularly hard hit, because the relative value of Pell grants has diminished by 50 percent since the late 1970s. Whereas Pell grants used to cover 84 percent of the average fixed cost at a public, 4-year institution, in 2001–02 they covered only about 40 percent of these costs. It is hugely important that you act to restore educational opportunities for our most vulnerable young people.

- **Congress should commit to a 5-year trajectory to recoup the buying power of Pell grants.**

Beyond providing more help to low-income students, though, it is important for Congress to consider how it might provide stronger incentives to colleges to enroll low-income students. As college-going increases, colleges often have less incentive to educate more low-income students. Despite the unique importance of higher education in breaking the cycle of poverty for students from low-income families, increases in student financial aid over the last 10 years—at the Federal, State, and institutional levels—have disproportionately benefited upper-middle and middle-class students. So even as the dollars for financial aid have grown, truly low-income

students have been asked to shoulder more of the burden of paying for college through loans. Institutions of higher education should be eligible for supplemental financial assistance for enrolling and graduating low-income students.

- Both Federal grants to individuals as well as Federal aid to institutions should be designed to better serve the Federal priority of increasing the access and success of low-income students.

In addition, the process of simply arranging college financing presents a daunting morass of confusing, sometimes duplicative, programs. In some instances, the Federal Government is providing rich subsidies to private lenders without commensurate benefits to the low-income students the programs were established to serve. To make matters worse, private lenders can use their subsidies to entice college and universities into their programs and out of the more efficient, less expensive direct loan program. These subsidies should be limited and the savings should be redirected to need-based aid for low-income students.

- Congress should eliminate excessive subsidies and directly administer a greater portion of federally guaranteed student financial assistance, and use the savings to expand need-based financial aid.

As Congress works to make college more affordable for students from low-income families, it must not cut back on prior commitments to increase college access among low-income and minority students. The GEAR UP and TRIO programs represent a lifeline to college for some of our most disadvantaged young people. Given the inequitable access to college that exists right now, it would be unfair and unwise to eliminate these programs.

Increasing College Success—What Institutions do Matters a Lot

Third, far too many students who enter our higher education system fail to earn a degree. Overall, only about 4 in 10 students who begin full-time at a 4-year college get a bachelor's degree within 4 years and only about 6 in 10 get a degree within 6 years, according to the U.S. Department of Education's Beginning Postsecondary Survey. Graduation rates are even worse for BA-seeking students who begin in a 2-year college. Moreover, in both types of institutions, completion rates are substantially lower for minority students and students from low-income families.

While approximately two-thirds of White freshmen in 4-year colleges (66.8 percent) obtain a degree within 6 years, fewer than half of African-Americans (45.7 percent) and Latinos (47.3 percent) do so. There are also significant differences in completion between students in terms of family income: 77 percent of students from high-income families graduate, compared to only 54 percent for students from low-income families—a 23 percentage point difference. And remember: These figures represent the outcomes only of students who began as first-time degree-seeking freshmen in 4-year institutions—that is, the students who are most likely to persist and graduate.

Because the number of students entering the Nation's colleges and universities has been rising overall, not much attention has been paid to these low-completion rates. The percentage of high school graduates going on to 2-year or 4-year colleges and universities increased from less than half in 1975 to almost two-thirds in 2001. But graduation rates among first-time, full-time students in 4-year colleges have remained stagnant for decades—we are successfully getting more young people to college, but not getting proportionally any more of them through college.

While these disturbing patterns—low overall graduation rates and big gaps between groups—have remained stubbornly consistent, the consequences of not graduating have changed drastically. People with a 4-year degree or higher now earn much more relative to high school graduates than they did 30 years ago, and the gap increases with the level of the degree. By contrast, those who enroll in college but fail to get a B.A. have made only slight gains.

Unless we change current trends, we will become a society that is even more polarized by class distinctions. Consider this: Only 7 percent of young people from the poorest one-quarter of American families earn a bachelor's degree by age 26, while 60 percent of young people from the top quartile of family income do so. College degrees may be the best route out of poverty, but they are a route now for only 7 of every 100 youngsters born to a low-income family.

It would certainly help if more of these young people entered college well prepared and if they didn't have to struggle to cover college costs. Preparation and ability to pay are important, but they do not tell the whole story. What is becoming increasingly clear is the critical role institutions themselves play in securing the success of their students. How do we know? Because right now, institutions that serve similar students with similar preparation and similar family incomes have widely divergent graduation rates. Our recent report focusing on this issue revealed that some

colleges and universities are doing much better than others in graduating their students, even once we account for student characteristics.

Last year for the first time, institution-level graduation-rate statistics were released to the public, disaggregated by student gender and race/ethnicity. Examining the numbers closely, we find that some institutions stand out—even after controlling for factors such as institution size, resources, mission, degree programs, and the financial and academic background of their entering students. Some colleges and universities have much higher graduation rates than other, very similar institutions.

These exceptional higher education institutions range from Elizabeth City State University, a historically Black institution in North Carolina whose student body is predominantly low-income, to Miami of Ohio, a highly selective public university, to the University of California at Riverside, which serves a highly diverse mix of White, Black, Asian, and Latino students, to the University of Northern Iowa, a mid-sized comprehensive institution.

These institutions are different in many ways—their size, location, mission, selectivity, and students vary tremendously. But they're similar in one fundamental respect—they consistently and significantly outperform their peers in graduating students.

And the data reveal that high performance doesn't have to be for some students at the expense of others—institutions like East Carolina University in North Carolina and Binghamton University in New York outperform their peers without gaps in graduation rates between White students and students of color. We even know that rapid improvement is possible, thanks to the example of the University of Florida, Louisiana Tech, and others that have upped graduation rates for 5 years running.

This newly available data establishes that what institutions do makes a very big difference when it comes to student success. Indeed, earlier this year, the Education Trust made all of this data publicly available through an interactive database on our web site. Visitors to the College Results Online database can select a given institution and see how it compares to similar, peer institutions in graduating students. We will be happy to provide Senators and their staffs with information and analysis from this database.

Even as individual institutions have distinguished themselves, our higher education system has, collectively, made virtually no progress in improving graduation rates over the last three decades. That must change—both for the students and for our country. Institutions of higher education must be accountable for doing what they can to enable the success of the students they admit.

Leaders in many States are beginning to step up to this responsibility:

- For example, The University System of Georgia, led by Chancellor Tom Meredith, has begun to study the graduation rates of its 34 colleges and universities, with the aim of setting graduation-rate goals, both overall and for student subgroups, for which campus presidents will be held accountable.

- In Massachusetts, a graduation-rate task force has been appointed to find out why the number of undergraduate degrees awarded by 24 State and community colleges has dropped steadily since 1997, particularly in economically depressed areas served by the schools. Spurred by upcoming implementation of a new State performance funding system, the task force is expected to outline a series of concrete recommendations by December.

- And it is no coincidence that two of the unusually high-performing institutions I mentioned earlier are from North Carolina. Some years ago, the UNC system began publishing graduation rates and holding campus presidents accountable for these numbers.

The traditional State role in regulating and funding higher education suggests that States are currently in the best position to create robust accountability systems that hold institutions appropriately responsible for the success of their students. But given the national interest in tackling this problem, Congress should ask States to design and implement goals and accountability systems for higher education access and outcomes. While the quality of currently available data and the limited knowledge of best practices advise against a uniform system nationally, it is important that States and systems of higher education begin to see increasing student success as a responsibility, not a choice.

- **Congress should require States to put in place an accountability system for 4-year colleges and universities.**

States should have broad discretion in designing systems that meet the particular needs and characteristics of their institutions, and that fit with systems that have already been established. But each system should share several common characteristics: (1) accurate, publicly available graduation rates that are disaggregated by

student gender, race/ethnicity, and income status; (2) specific goals for improvement at each institution, including both overall improvement and closing gaps between groups; and (3) public reporting of institutional success in meeting graduation-rate goals. And States should develop plans to integrate 2-year institutions into their accountability system, once appropriate measures are developed that account for the diverse missions those institutions pursue.

Some States are already well on the way to developing graduation-rate measures that improve on the federally-collected data, by taking into account student mobility between institutions. These States should be allowed to use these fuller measures as they implement accountability systems. States that have not yet made the investment in the data systems they need should use the federally-collected measures in the meantime.

Accountability for higher education should also incorporate measures of access and quality of learning, to ensure that increasing student completion doesn't come at the expense of academic standards or education opportunities for low-income students. Measures of institutional success must include both the institution's performance in graduating traditionally underserved students, and its success in recruiting and admitting such students. Too often, success in higher education is measured in terms of increasing the so-called "quality" of the students who are enrolled, which can come at the expense of serving the students whose need for an accessible, affordable high-quality postsecondary education is greatest. Congress must help to counterbalance those pressures by recognizing and encouraging those who give access and success equal attention.

Building Even Better Data Systems

We recognize that the institutional graduation-rate statistics currently gathered by the Department of Education aren't perfect, because they don't fully account for students who transfer from one institution to another. This is less of a problem than is sometimes suggested, though. Less than a quarter of beginning 4-year students transfer, and only a third of those students who transfer end up graduating within 6 years. As a result, 80 percent of all students who start college at a 4-year institution and earn a B.A. finish where they began. The current graduation-rate statistics are more than enough to know that some institutions are doing much better than others, and we should act on that information now.

But we can and must do better. The U.S. Department of Education should be directed to work with States to develop a next generation of graduation-rate statistics that appropriately account for mobility and other factors. By moving to a more streamlined, powerful data collection system that allows the tracking of student success at multiple higher education institutions, we could increase the efficiency and utility of the data collection process while reducing the expense in the long run. We can also answer vital questions that currently lie beyond the scope of the data system, such as: What are the graduation rates of low-income students and students receiving Federal financial aid? How does the success of students seeking different academic majors compare? How successful are institutions in graduating students, after taking into account those who transfer?

Such a system would also give us much more information about the pipeline of students between 2-year and 4-year colleges. We currently know even less about the success of our community colleges than our baccalaureate and graduate institutions, despite the fact that 2-year colleges represent a growing sector of higher education, particularly for low-income, minority, and non-traditional students. A more integrated, powerful data system will change this, providing a clearer picture of success across higher education sectors.

With this new data in hand, Congress can help promote public scrutiny of higher education outcomes by disseminating and drawing public attention to a free, easy-to-understand, uniformly-comparable public information system. Such a system would allow students, parents, and policymakers to better understand how different colleges and universities compare on crucial performance benchmarks, including access, affordability, and graduation rates, as well as available information regarding academics and safety. Honest, objective, reliable information about the success of individual institutions of higher education needs to become more easily accessible and this data needs to permeate discussions of institutional quality.

Moving forward, we need to know much more about which institutions are doing better, and then we need to learn more about what these institutions are doing. Gathering richer data about student progress and success is an important component of any strategy to improve outcomes in higher education. Better data will help researchers and higher education leaders identify high performers and learn from them. There are some promising initiatives underway in this regard, such as NSSE, the National Survey of Student Engagement, developed at Indiana University.

NSSE and similar projects are exploring the connections between institutional practices and student success. But indepth “best practices” studies whose results are transferable from one college or university to another are far too rare in higher education, in part because there hasn’t been enough good data to reliably know who the “high performers” really are, and in part because neither tradition nor policy have created sufficient demand for such studies.

Congress can advance the conversation on both of these issues through the HEA reauthorization.

- **Better data systems should be developed to more accurately identify the most successful institutions and research should be supported to discern the policies and practices that distinguish these institutions from their peers.**

- **To spur interest in the colleges and universities that truly stand out in their service to their students, Congress should establish a program akin to the Blue Ribbon schools in the K-12 context.**

The Federal Government should very publicly recognize and reward the colleges and universities that are serving the greatest number of low-income and minority students and demonstrating the greatest success in graduating these students. Our initial research suggests that these institutions come from all sectors of postsecondary education, from large research universities to small private colleges to minority-serving institutions. By very publicly identifying the best of the best, and rewarding them for their success, Congress could set a standard against which all other institutions would be measured.

Why is all this so important?

Nationally, there are 772 colleges where at least 5 percent of the undergraduates are black. In 299 of those institutions the 6-year graduation rates for black students are less than 30 percent. In 164 of those institutions the 6-year graduation rates for black students are less than 20 percent. In 68 of those institutions the 6-year graduation rates for black students are less than 10 percent.

Similarly, in colleges where more than 5 percent of the students are Latino, 25 percent have 6-year graduation rates for Latinos less than 30 percent.

Surely, we can do better. Some institutions already are.

There are now about 890,000 African Americans between 25 and 34 who hold a bachelors degree. If we could simply cut the black-white graduation rate gap in half—which some institutions already have—the number of black college graduates would grow by 10,000 per year. Over a decade, that would produce 100,000 more African Americans with access to a wide range of opportunities currently denied to them.

If we went further and closed the gap—which some institutions already have—we could produce 200,000 more African Americans with such access. Similar improvement for Latino students would mean another 20,000 Latino college graduates in Texas alone.

Thank you for this opportunity to testify on this important subject. I look forward to answering your questions.

Overview of Testimony by Kati Haycock, Director, Education Trust

For many decades, the American education system led the world on almost every measure. Over the past decade, however, we have allowed a surprising array of countries to slip by us. We are now 17th in the developed world in high school graduation rates and 7th in college entry rates. We don’t even lead any longer in the proportion of our young people completing a college education.

Underneath this overall story, the numbers are even more worrisome for low-income students and students of color.

To get our country back on an upward trajectory will require action on a number of fronts. As it reauthorizes the Higher Education Act this year, Congress can make an important contribution to solving key problems at several levels.

- *To ensure that high school students are better prepared for college, Congress should support State efforts to align high school requirements with the demands of college and work. You can help by providing financial support for linking K-12 and higher education data systems, for aligning course and exam requirements, and for ensuring that teachers have the help they need to teach to these standards. Congress should also provide an extra incentive for students to complete more challenging courses by providing additional financial aid.*

- *To ensure that low-income students are have the support they need to continue their educations, Congress should commit to a 5-year trajectory to recoup the buying power of Pell grants, use Federal aid to institutions to provide incentives for institutions to enroll more low-income students, and eliminate excessive subsidies to lend-*

ers, using the savings to help more low-income students. Also, because it would be a cruel hoax to add additional financial aid for low-income students, but remove the main programs—like TRIO and GEAR UP—for helping them prepare for college, Congress should continue to fund these programs.

- *To ensure that colleges focus on both access and success, Congress should require States to set stretch goals for their 4-year colleges and put into place accountability systems to monitor progress. What institutions do matters a lot, and at the moment, institutions don't have strong incentives to improve student success.*

- *To enhance our ability as a country to identify problems and track progress, Congress should direct the U.S. Department of Education to work with States to develop better data systems and create a next generation of graduation rate statistics that are capable of better tracking the progress of our highly mobile students.*

Why is all this so important?

Nationally, there are 772 colleges where at least 5 percent of the undergraduates are black. In 299 of those institutions the 6-year graduation rates for black students are less than 30 percent. In 164 of those institutions the 6-year graduation rates for black students are less than 20 percent. In 68 of those institutions the 6-year graduation rates for black students are less than 10 percent. Similarly, in colleges where more than 5 percent of the students are Latino, 25 percent have 6-year graduation rates for Latinos less than 30 percent.

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If we went further and closed the gap—which some institutions already have—we could produce 200,000 more African Americans with such access. Similar improvement for Latino students would mean another 20,000 Latino college graduates in Texas alone.

The CHAIRMAN. Ms. Thorpe. I know that you have some family support here today too. We will not count it against your time if you make the introduction. [Laughter.]

Ms. THORPE. OK. This is my foster mother, Geri Hanly, in the pink, and my foster brother, Eric Hanly. He is in the Air Force. He is a captain right now. I am very pleased to have them with me today.

Good morning, and I am truly, truly honored to be here today. This is something that I never had imagined myself doing. In fact, the majority of my accomplishments, my resume bullets, you could say, would not be where they are or even in existence if it had not been for the Upward Bound program or the TRIO program as many people know it. I am firm in my belief that if it were not for this program and its constant encouragement, their belief and acceptance of me, I would not be who I am or where I am.

I need to tell you about my early life so you can fully understand what I mean. To this day I do not remember completing an entire year of school until the 8th grade. This truancy was not in any way my own choice. Coming from my background, education was not viewed as an important thing. When your bed is the floor of a truck and the way you get your meals is to beg on a street corner, education is not a priority.

My biological mother did not feel it necessary for me to attend school. In fact, she saw my joy with school and would ground me from it. Constantly on the move, switching homes, there was no constancy or stability in my life. Then when I was in the 7th grade, not even 2 months after my 13th birthday, my mother finally enrolled me in school.

I was thrilled, but at the same time I was crying for help. I needed someone to rescue me. Eventually I was rescued but not in the way I thought I would be. After only 2 weeks in the 7th grade I was kicked out for distributing drugs. I had taken these drugs from my mother's stash while living in our 7-foot by 9-foot pole trailer in a trailer park. I wound up in the juvenile justice system.

Three months after being admitted to my last and best foster home, the courts allowed me to attend school. I was given achievement tests. I was 13-years-old, unable to fully comprehend reading, with little knowledge of mathematics or science, taking a test to determine what grade and school I would be. They put me in all remedial learning classes. I can still remember celebrating my very first completed semester. I had earned a 2.4 GPA.

After that first semester in the 8th grade my life began to change. My foster mother, Geri, pushed for me to join the Upward Bound program to take advantage of the after school tutoring that they offered. I agreed and joined the Upward Bound program in the 9th grade. My improvement was rapid and drastic. My grades shot up to a 3.75 and I switched from remedial to honors courses, and eventually later on in high school these were all AP courses.

With this new feeling of accomplishment I had a new self-image. I did not want to be like my mother or my old friends. I wanted something more for myself. I always had wanted something more for myself. I just did not have a way to access it until the Upward Bound program came into my life.

Through Upward Bound I was given a myriad of opportunities. The first difference I noticed with Upward Bound was that the field trips were free. I never felt poor and people believed in me. Education was becoming something I never thought it would be—for everyone. Although I began to believe in what this country refers to as equal opportunity, I developed a sense of fear. I knew I wanted to go to college. I just did not think it was right for me. I did not have a way to go.

When my senior year rolled around I told my Upward Bound coordinator that I was not going to college. After knowing me for 4 years she was shocked. I still cannot remember if her reaction was an anger one or if she sincerely had thought I had gone crazy. She told me I would be wasting my mind, wasting a good chance that I might never have again. Although my foster parents had tried to convince me of this fact many times, it just was not sinking in. It did not sink in until my Upward Bound coordinator put it so squarely before me.

Instead of letting me get away with applying to one school, Upward Bound got me to apply to 10. I received acceptances, but the issue of money was still there. I had no way to pay for college. I expressed this to my Upward Bound coordinator, who happily informed me that I had a lot of options. She introduced me to the FAFSA, helped me fill it out, and to a million different scholarship applications. She did not stop there. She went on to write me letters of recommendation, including one to the Gates Millennium Scholarship Fund.

Pepperdine University accepted me and offered me the largest scholarships and grants including the Pell grant. Plus, the Gates Millennium Scholarship covers the difference. I went on to receive

the Anton Kollars Scholarship and the Jim Casey Family Program Scholarship. This was the first time in my life in which I actually felt financially stable.

And here I am in front of you, a newly-minted senior at Pepperdine University who is taking full advantage of the opportunities provided for her, and giving back in every situation possible. I now have the ability to point my life in whatever direction I see fit for it to go. This ability, with all of its blessings, is something I would not have had had it not been for the Upward Bound and the TRIO program's help and encouragements.

This summer I will be giving back to my community through service as a team member for TRIO's Upward Bound summer program at the University of Wyoming.

Currently, as well, I work as a researcher for a program called Los Angeles Bridges. This program is an outreach to high- and low-risk students of Fulton Middle School. This is where I learn to what extent programs like Upward Bound are necessary on a much larger scale. The mean grade point average of the 85 high-risk students that I work with is a 1.9. These kids will be the beneficiaries of the Upward Bound program upon admittance into high school. These kids may never see another opportunity to release themselves from the cycle of poverty if these programs are eliminated.

I was a child like those I work with, crying for help, who needed someone to believe in her. Had it not been for the Upward Bound program I would not have made it this far, nor will I make it on to my next school.

I thank you for your support for these programs and for inviting me to come here today to speak.

The CHAIRMAN. Thank you very much. I am very proud of you, and I can tell that you are deservedly proud of what you have done, and I can hardly wait to see what you will do.

Ms. THORPE. Thank you.

Senator DODD. I have a feeling she is going to be sitting on this side of the dais. [Laughter.] If I were you, Senator, I would be very careful about it. [Laughter.]

Ms. THORPE. We will see.

[The prepared statement of Ms. Thorpe follows:]

PREPARED STATEMENT OF TRINITY THORPE

Good morning/afternoon Senators. I am truly honored to be here today. This is something I never imagined myself doing. In fact, the majority of my accomplishments, my resume bullets you could say, would not exist if it weren't for a program called Upward Bound. I would not be where I am or who I am if it weren't for the constant encouragement, belief, and acceptance of the Upward Bound staff.

I need to tell you about my early life so you will understand what I mean.

To this day I don't remember completing an entire year of school until the eighth grade. This truancy was not in any way my own choice. Coming from my background, education was not viewed as an important thing. When your bed is the floor of a truck and the way you get your meals is to beg on the street corner, education is not a priority.

My biological mother did not feel it was necessary for me to attend school. In fact, she saw my joy in education and would ground me from school. Constantly on the move, switching homes, there was no stability or consistency in my life. Then, when I was in seventh grade, not even 2 months after my 13th birthday, my mother finally enrolled me in school.

I was thrilled, but at the same time I was crying for help. I needed someone to rescue me. Eventually, I was rescued but not in the way I had imagined. After only 2 weeks in the seventh grade I was kicked out of the school for distributing drugs.

I had taken the drugs from my mother's stash while in our 7- by 9-foot pull trailer. I wound up in the juvenile justice system.

Three months after being admitted to my last and best foster home, the courts allowed me to attend school again. I was given achievement tests. I was 13 years old, unable to fully comprehend reading, with very little knowledge of mathematics or science, taking a test to determine my school grade. They put me in remedial learning classes. I can still remember celebrating my first completed semester, I had earned a 2.4 GPA!

After that first semester in the eighth grade my life began to change. My foster mother pushed for me to join Upward Bound to take advantage of the after-school tutoring they offered. I agreed and joined Upward Bound in the ninth grade. My improvement was rapid and dramatic. My grades shot up to a 3.75 GPA and I switched from remedial to honors courses.

With this new feeling of accomplishment I had a new self-image. I didn't want to be like my mother and my old friends. I wanted something more for myself. I always had wanted something more I just didn't have a way to access it until Upward Bound came into my life.

Through Upward Bound I was given a myriad of opportunities. The first difference I noticed with Upward Bound is that the field trips were free. I never felt poor, and people believed in me. Education was becoming what I never thought it would be—for everyone. Although I began to believe in what this country refers to as equal opportunity I developed a sense of fear. I knew I wanted to go to college I just didn't think it was right for me.

When my senior year rolled around, I told my Upward Bound coordinator that I wasn't going to college. After knowing me for 4 years, she was shocked. I will never forget her reaction. I still can't tell if she was angry or if she sincerely thought I had gone crazy. She told me I would be wasting my mind, wasting a good chance that I might never have again. Although my foster parents had tried to convince me of this fact, it didn't sink in until my Upward Bound coordinator put it so squarely before me.

Instead of letting me get away with applying to one school, Upward Bound got me to apply to ten. I received acceptances, but the issue of money was still there. I had no way to pay for college. I expressed this to my UB coordinator who happily informed me that I had options. She introduced me to the FAFSA and to a million different scholarship applications. She didn't stop there. She wrote letters of recommendation, including one to the Gates Millennium Scholarship Fund.

Pepperdine University accepted me and offered me the largest scholarship. Plus, the Gates Millennium Scholarship covers the difference. I went on to receive the Anton Kollars Scholarship, and The Jim Casey Family Program Scholarship totaling amounts that went well beyond the cost of my education. Not to mention that if I needed to have the scholarships increase for any particular reason there would be no problem. This was the first time in my life in which I actually felt financially stable.

And here I am in front of you, a junior at Pepperdine University, who is taking full advantage of the opportunity given to her and giving back in every situation possible. I now know I have the ability to point my life in whatever direction I want it to go. This ability, with all its blessings, is not something I would have had without the guidance, mentoring, and encouragement of the Upward Bound Program.

Currently I work as a researcher for a program called Los Angeles Bridges. This program is an outreach to high and low risk students of Fulton Middle School. This is where I learn to what extent programs like the Upward Bound are necessary on a much larger scale. The mean grade point average of the 85 high risk students in the program is a 1.9. These kids will be the beneficiaries of the Upward Bound Program upon entrance into high school. These kids may never see another way out of the cycle of poverty if programs like this are eliminated.

I was a child who was crying for help, who needed someone to believe in her. Had it not been for the Upward Bound program I would not have made it this far nor will I make it my next goal.

Thank you for listening.

The CHAIRMAN. Mr. Bosworth.

Mr. BOSWORTH. Mr. Chairman, members of the committee, I have a lot of very smart things to say, but there could be no more compelling testimony about the importance of higher education in America, no more strong evidence of its success than this very poised and articulate young lady sitting on my right.

Congratulations.

Ms. THORPE. Thank you.

Mr. BOSWORTH. Thank you for the opportunity to summarize today some of our work about the education needs of working adults who did not prepare for this economy when they were of traditional school age.

Let me turn first to the easy part: what is the problem? Here is what I suspect you already know. Almost all of the good jobs demand postsecondary credentials, yet 60 million working adults in America between the ages of 25 and 65—that is over half of that working age population—have no education after high school. Most are stuck in low wage jobs. Few can buy homes or build family assets to pass on to their children, and most probably will not send their own children to college.

If we cannot do a better job in getting working adults back to college, the Nation faces a major shortfall of educated workers. High school graduation rates are not increasing. College completion rates are increasing only very slowly. This problem will get worse.

Working adults face huge barriers to postsecondary access and success. Many have very poor or at least very rusty basic skills, but colleges have limited ability to help them remediate those skills, and our adult basic education system is of almost no help at all. With full time work and family responsibilities, few adults can attend college on the half-time basis required for most grant and loan aid. The Lifetime Learning Tax Credits are poorly marketed, too small to make much difference, and irrelevant to low-income workers with limited tax liability.

Financing barriers aside, most colleges do not offer accessible programs, flexible schedules or modularized credentials that might work for working adults. Most programs are still seat time based in 15 week semesters, not the competency-based, smaller, more digestible chunks that would be accessible to working adults.

Of course there are wonderful exceptions to this generally dismal picture of how higher education responds to the needs of working adults, but they remain isolated best practice, far from common practice. All working adults pay a high price for inflexibility and traditionalism in postsecondary education.

Now to the more hard part: what can be done?

These are deeply embedded problems. They are not going to yield to quick solutions. Still there are some things that this committee could begin now to fix, some as part of the reauthorization of the Higher Education Act and some as closely-related initiatives. I offer four recommendations for your consideration.

1. Modify eligibility requirements for existing loan and grant programs. My written testimony recommends a few specific changes in Pell eligibility, and also suggests it is time to reconsider the limitation on Federal direct and insured loans to less than half-time students.

2. Develop a new Federal/State partnership to promote higher education for working adults. Barriers to continuing learning go very deep in the structure and financing of higher education, and just squeezing a little more money out of title IV will not help much. Solutions can come only through broad reforms and how the States manage their postsecondary education responsibilities. I recommend a modestly-funded temporary program of grants to

States to promote access and success for working adults by reforms in education governance, financing, curricular program development policies, accountability systems, accreditation, credentialing, and faculty development.

3. Make education tax credits more meaningful to working adults. This would include increasing the percentage of qualified educational expenses allowed under the Lifetime Learning Tax Credit from the current 20 percent of the first \$10,000 to 50 percent, capping that credit at \$2,000. Also make the credits refundable to low-skilled adults working in low-wage jobs with low tax liability. With refundability many low-skill, low-income workers could begin to use these credits for literacy and for occupational skill development.

4. Reform adult basic education. The lack of basic literacy skills is the greatest single barrier to postsecondary education facing most working adults. Current Federal and State adult literacy programs do not work and should embarrass us all by their obvious failures. We need fundamental reforms that would involve employers and directly link adult basic skill development to postsecondary participation.

Of course some of these ideas go well beyond the reauthorization of the Higher Education Act, but this is a systemic problem we face and it requires a systemic response.

I look forward to the opportunity to discuss these ideas and others in more detail. Thank you.

The CHAIRMAN. Thank you very much.

[The prepared statement of Mr. Bosworth follows:]

PREPARED STATEMENT OF BRIAN BOSWORTH

Mr. Chairman, and members of the committee: My name is Brian Bosworth. I am the president of FutureWorks, a consulting and policy R & D firm focusing on the strategies and institutions that promote sustainable, skill-based regional economic growth. I am grateful for this opportunity to discuss problems and opportunities in strengthening access and accountability in postsecondary education.

For the past few years, our firm has devoted an important part of our work to exploring the policies and practices that will promote training and education for millions of working adults who did not prepare for this economy when they were of traditional school age. I am pleased today to have this opportunity to summarize some of our findings and suggest their implications to the work of this committee. This testimony is further informed by our consulting work in regional economic and workforce development with business-civic institutions, workforce boards, and community colleges.

In the 21st century economy, skill has become the most critical determinant of economic success—for individuals, for businesses, and for regions. The economic returns to education and skill development are growing. The most obvious and the widest divide between those who are doing well and those who are not is education attainment. For the unprepared individuals, businesses, and regions, the increasing bias toward education and skill demands wrenching adjustments. However, the good news is that these are not fixed regional or personal endowments. Unlike natural resource and location advantage in the last century, the chief determinates of region economic success in the 21st century economy—education and skills advantage—are not immutable; they can be changed. With the right policies and with aggressive leadership, a region can increase its stock of skills and create flexible and responsive educational institutions that will attract new investment and make old investments more efficient.

Federal policy can make a big difference. I will focus the balance of my remarks on suggesting how this committee might craft strategies that better support the skill attainment objectives of millions of working adults. First, I want to explore the problem in more depth and, secondly, I want to offer four specific recommendations for attacking these problems. Those recommendations include:

1. modifying eligibility requirements for existing grant and loan programs;
2. developing a new Federal-State partnership in higher education for working adults;
3. making education tax credits more meaningful to working adults; and,
4. reforming adult basic education.

Postsecondary Access and Success for Working Adults: What's the Problem?

In 2004 there were about 115 million full-time workers from age 25 to 64 in the U.S. civilian labor force. Only 40 percent of them have a college degree (associate's, bachelor's, or advanced). Another 19 percent went to college, but never got a degree. While some of this last category may have gained a 1-year academic certificate or an industry-recognized certification, most probably dropped out of college before completing even 1 year.

We can reasonably conclude that there are at least 60 million adult workers in America who have no postsecondary credential of any kind. They were not prepared by their education for success in today's skills-biased economy and most are struggling. They don't make much money; they can't buy a home nor accumulate other assets to pass on to their children; and their own children are very unlikely to go to college. This isn't just their problem—America's lack of educated and skilled workers is the most significant drag on national economic growth.

There is no reason to believe this problem will abate over the next generation because more young people recently have completed or will attempt college. In fact, the college attainment rate of the workforce is increasing only very slowly. While the percentage of young adults age 25–35 with some college is much higher than those age 65 plus, it is not appreciably higher than those still in the active workforce. Nationally, the rate of increase in high school graduation has stalled. Only a large recent increase in the number of GEDs awarded has prevented an actual decrease in high school completion rates. The recent history of depressingly low attainment among the fastest growing demographic segments of those young people beginning high school over the next 10–20 years points to a further erosion of both high school and college completion.

Conservative projections by the Bureau of Labor Statistics about the number of net new jobs that will require some college and optimistic projections of net new workers with some college credentials suggest a shortfall of about 12 million educated workers over the next 15 years. The lack of educated workers in the United States already threatens the competitiveness of firms in technology, healthcare, manufacturing, and most other sectors paying average or above average wages. Barring a dramatic, and unlikely, change in U. S. immigration policy, the skills gap will get worse. We cannot stop this gap from widening, much less begin to close it, until we develop policies that will help millions of working adults without college get postsecondary credentials.

Any college matters some, but degrees and credentials matter most. According to the Census Bureau, full-time, year-around workers with at least 1 year of college and no degree can expect to earn 15–20 percent more than those with no college at all, but other research indicates the benefits of less than a year's worth of postsecondary courses may generally be too small to be significant. Full-time, year-around workers with associate's degrees can expect to earn 30 percent more than those with no college and those with bachelor's degrees, 50 percent more. These financial returns to postsecondary education are growing every year and, over a lifetime, make a huge difference to workers, to their family assets, and to the likelihood of postsecondary education for their own children.

Many working adults understand the importance of further education but relatively few are finding success in gaining postsecondary credentials. The National Household Education Surveys (NHES) report stunning increases over the past decade in adult education enrollment, especially among those who have no previous postsecondary credential. However, the NHES also reports that few of these adults are enrolled in programs leading to degrees, certificates, or certification.

Unfortunately, efforts by working adults to gain those credentials are not well supported by their Federal or State Governments or by the institutions of higher education that ought to be encouraging them. Notwithstanding the rhetoric of "life-long learning," higher education financing, programming, scheduling, and credentialing policies still are skewed narrowly toward traditional students coming directly out of high school into higher education. Working adults, because they have full-time job and family responsibilities, often lack the time, money, and flexibility of schedule to fit into the mode of higher education.

Many working adults away from school for many years have poor or at least very rusty basic skills. Our review of the research literature suggests that an astonishing 40 percent of the labor force probably lacks the basic literacy skills to be successful

in higher education (and, of course, this means they also probably do not meet the basic skill demands of employers struggling to remain competitive in the global economy). In our work with community and technical colleges, we hear often that that 50–75 percent of their applicants fail the tests designed to predict success in the academic and occupational programs to which they seek admission. Some low literacy applicants with skills at, say, an eighth grade level are allowed to enroll in the colleges' remedial or developmental studies and, if they stick with it, can progress over several months to an acceptable level of proficiency. But, most of these adults have approached the postsecondary institution looking for technical or occupational credentials and they frequently lose all interest when diverted into basic skill courses. Few colleges have integrated basic skill building curricula into their for-credit, credential or degree-oriented courses. Those applicants with literacy skills below an eighth grade level are simply turned away or referred to adult basic education programs (and seldom are heard from again).

If they can get past the basic skill threshold problems, working adults still face major barriers to postsecondary study (especially time, program availability, schedule, and cost). Evidence shows that working adults do take courses outside of working hours, but usually on an intensive basis only for a short time—4 to 6 weeks or so. Sometimes, they are able to take one course at a time for a whole 15-week semester. However, especially if they have a family (and of course most do), they very seldom are able to sustain education and training at what colleges and universities consider a half-time pace.

Less-than-half-time students get little financial support. Government direct or guaranteed loans (subsidized and unsubsidized) require half time or more attendance. Working adults who must pursue college on a less-than-half-time basis receive almost no Pell grant money because several eligibility criteria (involving income and cost calculations, eligible programs and institutions, and the pace of attendance) effectively eliminate them from consideration. State programs generally minor Federal limits (although there are some innovative state-based practices).

Education tax credits are not helping. The more generous credit—the Hope Scholarship Credit—demands half-time or more attendance and goes mostly to the middle income parents of traditional students who are in their first 2 years of college. The Lifetime Learning Tax Credits available to less-than-half-time students are far less generous than Hope, they are poorly marketed, and they are not effectively targeted to modest income families.

Recall that the average annual earnings for full-time, full-year workers with only a high school degree were only \$30,400 in 2000. Even if a family has a second wage earner (probably not full-time, full-year), that family is hard pressed just to cover its basic living expenses. Educational expenses of \$1,500 to \$2,000 per year for a family struggling to cover these basic expenses can easily make postsecondary study seem out of reach.

The lack of student aid for working adults squashes demand for accessible programs and stifles experimentation and innovation, such as creating more digestible modularized programs and sequencing credentials. It increases the skepticism of working adults and their employers about the support they can get from their government or the higher education system.

But the problem is not just the absence of financing. Few institutions of higher education have developed programs and schedules that work for working adults. Even at community colleges, programs that will lead to degrees and academically recognized credentials are frequently campus-bound; even if not, they often have prerequisites that are tough to fit in the schedule of adults with full-time work and family responsibilities.

Degree and other credential requirements often seem too daunting for a working adult attending part-time. Associate degrees that require 60 to 75 credit hours can seem an almost insurmountable barrier to a student who can take only three of four credits at a time. Most programs continue to require seat time in lieu of competency demonstration as a chief criterion of credentialing. Extended use of evening and weekend programs often requires programming arrangements that can raise accreditation problems for the programs and institutions. Their response frequently has been to make those offerings “non-credit” and to deny students shunted off into those classes the opportunity to build a pathway of credentials to advance their career.

Few public colleges have successfully integrated preparation for industry-based certification into their for-credit, academically credentialed programs. Students who choose to pursue such credentials (as in information technology fields) are often required to pursue these programs in more flexible but also more expensive proprietary training schools where they sometimes sacrifice future ability to articulate their study into higher-level programs in favor of short-term credentials. Workers

seeking continuing credentialed education as they navigate toward higher paid positions in their occupation are often frustrated to discover that credentials earned in one institution cannot be applied to advanced study at another school.

Of course, there are important exceptions to this generally dismal picture of how higher education systems meet the needs of working adults. Notwithstanding a decade of increases in tuition and fees that exceed the rate of inflation, many 2-year community colleges are still financially accessible for limited income families. There are several colleges, 4-year as well as 2-year, that have worked hard to develop programs that work well for working adults and are affordable. They have organized credentialed programs that generally require 1 or 2 years of full time study into shorter modules, each with distinct credentials that can be “stacked” together over time into more conventional degrees and certificates.

Some community colleges are making more extensive use of “career ladders” in high-growth occupations that enable students to earn basic, industry-recognized certification quickly to gain entry to higher wage occupations with the option to continue training for more advanced credentials. Some program offerings include open-entry/open-exit classes that allow students to progress at their own pace, classes that meet on weekends, and course offerings that combine distance-learning and on-campus support. Some colleges have created short-term intensive programs with curricula and scheduling formats that can better accommodate the schedule limitations of working adults.

Regrettably, however, these are exceptions—best practice, not common practice. In terms of cost and programs structure most institutions of higher education institutions are not easily accessible to working adults and they do not promote success.

In fact, this is not just a problem facing low-skilled working adults. A defining characteristic of the early 21st century economy is the emergence of high wage, high skill, occupational clusters not generally seen as professional or managerial and requiring sub-baccalaureate credentials at entry. Jobs in these clusters (like advanced manufacturing, biotechnology, logistics, health care) pay well and offer opportunities for career advancement. They provide careers that can support middle class expectations for producing family sustaining earnings and building inter-generationally transferable assets.

However, a central feature of these high performance occupations is that they require advanced and credentialed skills on a continuous basis. People in these occupations need postsecondary education not just to get ready for the job, but also to adapt to the job or occupation as skill requirements change and as they pursue better opportunities within the occupational cluster.

The implications of these labor market changes for education and training are far more significant than has been generally understood. We need demand-side oriented, postsecondary institutions that can help pull young people through high schools and pull adult workers back into education to build a solid foundation to enter these high performance occupations. These market-based institutions then need to stay with the workers as they and their employers discover the need for new skills. Upwardly mobile workers developing a portfolio of credentialed skills must rely on local education and training institutions that can deliver programs in short, intensive, and credentialed packages that are accessible to people who have full-time jobs and usually full-time family responsibilities. The institutions must develop more systemic credentialing systems that certify both the strong foundation and the addition of new increments of knowledge and capability. In these high skills occupations, successful workers and their employers will need more comprehensive and more fine-grained credentialing pathways than those currently offered by our current system of 1-year certificates and 2-year and 4-year degrees.

In the old economy, postsecondary education helped people prepare for their first jobs and the beginning of their careers. In the new economy, postsecondary education must help people prepare for lots of jobs over their lifetime, building career competencies through continuous education and skill development.

In summary then, there are big economic returns for workers, their employers and the national economy to postsecondary education for working adults, especially for those with no previous after high school credentials. However, there are even bigger barriers to postsecondary access and success for working adults. The obvious question is, “What do we do about it?” Or, more to the point, “What does this committee do about it?”

This committee can begin now the task of helping postsecondary education in America organize itself to deal more effectively with the on-going education and skill development needs imposed by the 21st century economy. It will take time but there are some things that can be done now in re-authorizing the Higher Education Act and some things that can be done in the near term through the strategic adjustments of closely related Federal policies affecting higher education.

What Can This Committee Do in Reauthorizing the Higher Education Act?

1. Modify Eligibility Requirements for Existing Grant and Loan Programs: This committee might consider some relatively low-cost modifications to Title IV of the Higher Education Act that would help working adults and promote lifetime learning. Very low-income adults could be helped by changing the way that "Expected Family Contribution" and "Cost of Attendance" are calculated to better reflect living costs, by permitting Pell grants for summer school to allow for year-around attendance, by simplifying access to Pell grants, and by more aggressive marketing of their potential eligibility.

For other working adults who are able to incur education debt, it certainly seems appropriate to reconsider the limitation on Federal direct and insured loans to less than half-time students. In fact, working adults (because they have a credit history and income) are probably more able to manage education debt than young people coming out of college and looking for their first career job. The returns to credentialed learning are dramatic enough to justify this investment. I further encourage the committee to investigate how employers might be asked to play a supportive role in new adult loan programs, perhaps through financial incentives for helping repay worker debt.

I understand that the President's 2006 budget has proposed a small, new loan program, jointly administered by the Departments of Education and Labor, to help dislocated, unemployed, transitioning, or older workers and students. I have very few details of this budget initiative, but to the extent it seems to have merit, this committee may wish to consider its inclusion in the reauthorization of the Higher Education Act.

However, beyond these modest changes, I don't see much enthusiasm among postsecondary institutions themselves for major changes in Pell grant or student loan eligibility that might better accommodate the financial needs of working adults. Most see Title IV of the HEA as a "zero sum game" where allocating more Federal support to non-traditional students, like working adults, means diverting it from traditional students. Certainly, Federal resources are tight; this hardly seems to be the right climate to consider new government entitlements for higher education. And it doesn't help low-income working adults to set their needs in opposition to the needs of low-income young people.

Even more importantly, we are increasingly convinced that squeezing a little more money out of title IV will not help much. The problems that discourage access and success for working adults seeking postsecondary credentials also discourage the continuous learning that is required by the new economy. These are historic problems that go very deep into the governance and financing of higher education and adult education. Solutions must come through broad reforms in how the States manage their postsecondary education responsibilities.

The current title IV programs for traditional students pretty much ignore the State role in favor of direct entitlements and institutional aid programs. Perhaps the more appropriate Federal role for such non-traditional students as working adults might be to work directly with the States, helping them promote institutional change for student access and success.

2. Develop a New Federal-State Partnership in Higher Education for Working Adults: We suggest inclusion in the reauthorization of the HEA of a modestly-funded, temporary program of grants to States to promote postsecondary access and success for working adults. These grants would help States develop and implement a plan to reform higher education governance, formula financing, student aid, curricula and program development, accreditation, credentialing, and faculty development in ways that would promote access and success for working adults seeking their first postsecondary credentials as well as those seeking the new skills and additional credentials of career advancement.

This would not create new Federal student financing programs. Nor would it seek to divert existing program like the Pell grants and the direct and guaranteed student loans away from traditional students toward working adults. Rather, this new approach would be focused on helping the States—the biggest financial stakeholder in higher education—explore how changes in the way they govern and finance higher education can create better opportunities for access and success for working adults.

We suggest a time-limited approach (the 6 years of the new reauthorization) under which each State would receive a planning grant in year 1 followed by annual, formula-based implementation grants in years 2 through 6. There would be monitoring, assessment, and enforcement mechanisms to keep States on track of the plans they develop with incentives for outstanding work and sanctions for poor performance. Alternatively, the entire process could be made competitive, with grants going only to those States prepared up front to make a strong commitment to the

postsecondary education of working adults. Under any approach, it seems important to make the Federal grants annually renewable, subject to performance, rather than allocating each State full funding in one large grant.

Use of the Federal grants would vary from State to State depending on their particular diagnosis of problems and opportunities. Some States might place a special emphasis on developing new financial aid instruments aimed at working adults. Others might choose to focus their efforts around the development of new program and credentials that fit the scheduling barriers facing many working adults. Some States might look chiefly at their community colleges to implement this initiative while others might ask their 4-year State colleges to play a major role. This diversity of approach would provide a rich learning environment and State teams working on these issues could be brought together regularly to exchange information and experience.

This does not have to be a costly program for the Federal Government. Giving the States modest discretionary funding to help their institutions with careful research and with the design, testing, and piloting of new programs will be enormously important to States facing serious fiscal constraints. Consider a 6-year Federal authorization of just \$500 million or \$85 million per year, providing the States an average of \$10 million for this multi-year initiative.

A scaled-down version of this idea could be piloted with just some States (perhaps 10–15 selected through a national competition) who commit to assess and improve their State postsecondary education policies to increase the number of working adults with postsecondary credentials. The participating States would assemble planning teams representing the Governor's office, the State higher education commission, the postsecondary student aid agency, the State department of workforce development, the State human services agency, the State finance or budget officer, the community/technical colleges, key legislators, and major business associations. With some sort of careful annual review, Federal funds would support a 1-year planning process and perhaps 3 or 4 years of funding for project implementation. Federal resources would also support national technical assistance and dissemination.

We have been working on a small project using this model for the past 2 years. With grant support from the Lumina Foundation, we have partnered with the National Governors' Association in what we have termed the Pathways to Advancement project. Several of the eight participating States have made important progress toward improving their State's higher education for working adults; however, there is much more work to be done. Under this project, there has been no funding to support program development and piloting at the State level and, in these days of severe fiscal constraints, it is very hard for States to change institutional behavior with no new money. However, our experience is that States are serious about making these changes. They have had strong support from their Governors. They work together and learn from each other. Federal leadership and a little Federal money could make the difference.

This new Federal-State program, even at a pilot scale, would be both good economics and good politics. This strategy would find enthusiastic support from business and labor groups. It does not require a large or open-ended financial commitment from the Federal Government. It would build a partnership with States and their institutions of higher education around the target of working adults as a huge new market segment. It would kick-start the systemic repositioning toward lifelong learning that is important for postsecondary education.

What Other, Closely Related Change Might This Committee Consider?

In the reauthorization of the HEA, this committee can begin to promote changes and reforms in the regulatory and policy frameworks of higher education that will help those institutions respond better to the needs of the millions of working adults who lack any postsecondary credentials and who will fall further behind in this economy.

However, changing institutional behavior is only one part of the challenge. We also have to think of how to change the behavior of individual workers and their employers. Adult workers need better information about the returns to postsecondary and greater incentives to invest their own energy, time, and money into earning postsecondary credentials. Employers need more information about the productivity returns to investments in workforce skills and how to help their workers understand the importance of these investments.

Strengthening employer commitment to the credentialed postsecondary education of their workers is a difficult challenge and the potentially effective Federal role is not clear. Employers may need more financial incentives as they step up to a higher standard of responsibility for helping their employees gain credentialed and portable skills. Employers spend a lot now, but most of their spending goes to support fur-

ther education for already highly educated workers in professional and managerial occupations. Very little information is available about employer education assistance programs permitted under IRC Section 127. Anecdotally, tuition reimbursement programs for lower skilled workers don't seem to be very effective as employers report extremely low takeup rates among their employees and colleges report very little tuition and fee income from employers. Perhaps this committee might encourage more research and pilot experiments with employers and employer associations to help determine how best to encourage a stronger employer role in promoting postsecondary access and success for adult workers.

While I understand the committee is focusing this hearing on the Higher Education Act, I would like to take this opportunity to encourage two very closely related policy initiatives or opportunities that could have a big impact on the postsecondary education achievement of working adults. The first opportunity lies in changing the Lifetime Learning Tax Credit and the second lies in a reform of adult basic education as currently promoted through Title II of the Workforce Improvement Act.

1. Making Education Tax Credits More Accessible to Working Adults: The Hope Scholarship (Hope) and Lifetime Learning Tax Credits (LLTC) were initiated by The Taxpayer Relief Act of 1997 to increase college affordability and to encourage lifelong learning. The two credits were designed to complement each other by targeting different groups of students. While the Hope may be used only for a student's first 2 years of postsecondary education, the LLTC is available for unlimited years to those taking classes beyond their first 2 years of college, including college juniors and seniors, graduate students, and working adults pursuing lifelong learning.

Eligible expenses for each credit include only tuition and required fees at an educational institution eligible for aid administered by the Federal Department of Education (DOE). Tax filers may claim tuition and fee amounts after subtracting grants, scholarships, and other tax-free educational assistance including Pell grants, employer-provided education assistance, and Veteran's educational assistance. The Hope provides a credit equal to 100 percent of the first \$1,000 plus 50 percent of the next \$1,000 of net tuition and fees paid during the tax year, for a maximum credit of \$1,500. The student must be enrolled at least half-time (at least 6 credit hours per semester, which typically is two classes) and be pursuing a degree or other recognized educational credential in order to be eligible.

In contrast, individuals are not required to enroll at least half-time or pursue an educational credential in order to be eligible for the LLTC. This makes the LLTC available to adults taking an occasional college course or to those enrolled in any course aimed at acquiring or improving job skills. Note that this could include adult basic education, including remediation of basic literacy skills in a college setting. Currently, the LLTC is equal to 20 percent of the first \$10,000 of net tuition and fees, for a maximum credit of \$2,000.

Both credits reduce the amount of taxes filers owe. The Hope credit can be claimed for multiple eligible students in a family while the LLTC is capped at \$2,000 per tax return, no matter the number of students in the family or the amount of their combined educational expenses. Families are allowed to claim the LLTC for some members and the Hope credit for others in the same year. However, the same student cannot take both credits.

The benefits of the tax credits phase out for higher-income taxpayers. The phase out begins at an adjusted gross income (AGI) of \$83,000 for a joint return (\$41,000 for single filers) with no benefit for families with incomes above \$103,000 (\$51,000 for single). With these relatively high thresholds, tax credits for higher education expenses have the most extensive eligibility of any Federal program. (In comparison, Pell grants are strictly limited to families with incomes below \$40,000. Nearly 90 percent of Pell grant funds are awarded to families with incomes under \$30,000 and 54 percent of those families has incomes under \$10,000.)

In 2003–04, FutureWorks investigated the use of the Hope and LLTC using three primary data sources: Internal Revenue Service's Statistics of Income, the National Household Education Survey, and the National Postsecondary Student Aid Survey. We were limited then to 2001 tax information (and have not been able to update our research since). Some quick highlights from our research include:

- 7.2 million filers received \$5.2 billion in credits;
- Only 21 percent of adults in the general population had heard of the credits;
- 44 percent of the filers received a Hope credit only and they received 60 percent of the total benefits, 52 percent received a LLTC only and they received 31 percent of the benefits, and 5 percent received both credits and 9 percent of the benefits;
- The mean credit for Hope recipients was \$969 and the mean for LLTC was \$432.

Overall, we found that the tax filers who benefited the most from these higher education tax credits were those who claimed them on behalf of dependent college

students. Those who benefited the least were students who claimed the credit(s) for their own or their spouse's educational expenses and who did not indicate that they were "students" on their income tax return.

Based on our research findings, we conclude that the Hope and LLTC are not working effectively to address the significant education and skill shortages in America's workforce. They are not inducing greater numbers of working adults who need to upgrade their education and skills to earn postsecondary credentials. They are not supporting to any significant degree those who are currently enrolled. As a policy device to address the employment and economic challenges discussed above, the higher education tax credits as currently marketed and structured do not work well.

These conclusions lead us to recommend four major changes to the education tax credits to make them more accessible and beneficial for working adults who pursue the postsecondary educational credentials needed in today's economy:

1. Raise Awareness of the Credits: Especially, work with employers to market and improve the takeup rate of the education tax credits among workers. Only 17 percent of working adults without a bachelor's degree had heard of them. These percentages decline with lower levels of education and income as well as among Hispanic adults and those for whom English is not their primary language. Among enrolled college students, only one-third of apparently eligible independent students actually claimed an education tax credit in the 1999–2000 school year.

2. Increase the Percentage of Qualified Educational Expenses Allowed Under the Lifetime Learning Tax Credit: Specifically, increase the percentage from the current 20 percent of the first \$10,000 spent on qualified expenses (tuition and fees) to 50 percent and cap the credit at \$2,000. The current structure of the Lifetime Learning Tax Credit mostly benefits full-time students who attend higher cost institutions and minimally benefits students who attend lower cost institutions like community colleges, and who are enrolled less than full-time. Working adult students attending community colleges part-time or less-than-half-time seldom spend over \$2,500 in eligible expenses (tuition and fees) annually.

3. Expand the Definition of "Qualified Expenses" for Both Education Tax Credits: Specifically, include in the definition of "qualified expenses" not only the direct costs of attending school, i.e., tuition, fees, and room and board, but also indirect costs, i.e., books, supplies, equipment, transportation, child care, and others as currently defined by the U.S. Department of Education in Title IV student aid formulas. It is important to note that this change will benefit only those students who do not already receive financial aid to cover these expenses. Both education tax credits already stipulate that tax filers can only include in "qualified expenses" those amounts above and beyond what is covered by tax-free education assistance and refunds, including the tax-free parts of scholarships and fellowships, Pell grants, employer-provided educational assistance, Veterans' educational assistance, and any other nontaxable payments other than gifts or inheritances received as educational assistance.

4. Make Both the Hope Scholarship and Lifetime Learning Tax Credits Refundable: Specifically, using the guidelines for the Earned Income Tax Credit, change the Hope and Lifetime Learning Tax Credits to allow low-income working adult students to keep their full credit, including the portion above any tax liability they have. Many low-skill adults working in low-wage jobs have low tax liabilities and without refundability will see no benefit from the education tax. With refundability, low skill, low income workers could begin to use these the credits for literacy and occupational skill development.

These changes in the education tax credits are, of course, not without fiscal consequence and it may be necessary to phase them in gradually. On the other hand, building demand for accessible postsecondary education programs by making these credits more responsive to the needs of working adults should work to expand the supply of the flexible programming and credentialing arrangements most needed in postsecondary education.

2. Reforming Adult Basic Education: The biggest single barrier to postsecondary access and success for many working adults is their low literacy proficiencies and there is very little help available to them to improve their basic skills. Current adult basic education strategies and programs are not working for working adults. Literacy deficits in the workforce are on the increase. Current programs enroll only a tiny fraction of those who need help, the programs achieve very nominal literacy gains for participants, and most program participants are not even working adults. Adult basic education needs to be reformed and the Federal Government should take the lead through the Adult and Family Literacy Act (now Title II of WIA).

While there is widespread recognition of severe basic skills deficits in American workplaces, there is no current statistical information that fully and accurately quantifies the extent of the problem. The best source of information remains the

1992 National Adult Literacy Survey (NALS) of a nationally representative sample of 13,000 individuals age 16 and over who responded to detailed in-home interviews and completed a series of literacy tests.

The NALS respondents received proficiency scores in three literacy scales—prose, document, and quantitative. There is no “pass-fail” threshold in the NALS; the proficiency scores are grouped in five levels—level I being the lowest and level V being the highest. Adults in the bottom Level I could perform simple, routine tasks involving brief and uncomplicated documents (i.e., total entries on a deposit slip and locating the time and place of a meeting on a schedule), but they could not locate information in text or make low-level inferences using printed materials. They could not integrate easily identifiable pieces of information nor perform even one-step arithmetic operations.

Those with proficiency only at Level II could handle simple one-step arithmetic (e.g., determining the price difference between two tickets) but lacked such written communication skills as the ability to write a short letter explaining a billing error. Nor could they use a bus schedule to get to a destination by a specific time. Generally, employers would understand the middle level III as representing the degree of literacy appropriate to successful completion of tasks usually associated with front-line production or customer service workers; most employers would see this as the minimum standard for workplace success.

In 1992, over 40 percent of labor force participants age 16 and above performed below this mid-point standard—they were in the lowest two levels of proficiency as defined in the survey. That means that about 53–54 million workers probably did not possess the literacy basic skills desired by employers. Of these, 21–22 million workers scored only in the bottom Level I.

The 2003 NALS data will soon provide information about changes between 1992 and today. However, big changes are unlikely. Over the past 10 years, there have been only very modest gains in educational attainment of the workforce. In fact, the percentage of 18–24 years olds with a high school diploma or its equivalent actually decreased from 76.5 percent in 1990 to 74.7 percent in 2000. The immigration of poorly educated adults also has heightened the problem.

In fiscal year 2003, the Federal Adult Education and Family Literacy Act (Title II of the Workforce Development Act) allocated \$491.5 million to the States for all adult literacy programs. The States in turn allocate these funds to local providers, usually local education agencies and community-based organizations and often to correctional institutions. Most States match these Federal grants with more than the required 25 percent (total State/local matching funds have been about \$1 billion annually for the past few years), but overall State funding has actually decreased since 2000. Most programs fall into three categories: adult basic education; English as a Second Language, and adult secondary programs (for GEDs or high school diplomas). Basic eligibility requirements are to be 16 or older and be without a high school diploma.

Most adult education provider organizations are public K–12 schools offering evening classroom programs to very low proficiency adults or young people using adult education to compete high school. These providers typically have weak linkages at best to employers. Mostly part-time instructors staff the adult education programs; few instructors have credentials in adult education and fewer still have training in workplace basic skill programs. Not surprisingly, most employers know little about these providers or what help they may provide.

During much of the 1990s, enrollment in these publicly supported programs was between 3.5 and 4 million people, but in recent years the number of participants has slipped to about 2.7 million. Only about one third of these 2.7 million people are adult workers.

The majority is unemployed. A large and rapidly increasing share of Federal-State adult basic education program resources is devoted to GED preparation for youngsters under the age of 21 who enroll in adult education program to prepare for the GED test. While the GED was originally designed as a way for older adults who had not completed high school to gain equivalency, it has become an alternative pathway to high school completion by millions of high school age young people who have dropped out of school. GED preparation for high school age or slightly older adolescents is now consuming a large portion (perhaps 40–50 percent) of Federal-State adult basic education programming. Yet, evaluation evidence suggests no economic return to GEDs unless they lead directly to postsecondary credentials.

The current systems of adult basic education are supply-side approaches focusing around public providers typically offering evening courses taught by K–12 teachers who often are not trained as adult educators and have little experience with workplace or work oriented programs. Postsecondary institutions in most States are rarely involved with the design or delivery of adult basic education programs and few

States set postsecondary access and success as a central objective of adult education. There is very little educational infrastructure for demand-side strategies where employers and workers themselves might take on more responsibilities for developing stronger basic skills.

I understand that reform of Federal-State approaches to adult basic education is a big job and not the immediate subject of this committee. On the other hand, I understand that the committee is interested in how the different education programs under its jurisdiction work together, or don't. Here is a case where policy objectives, as least as they play out on the ground, are at cross-purposes with each other. Adult basic education as presently implemented in most States does not yield economic return to participants and does not support postsecondary access for working adults. I urge this committee to begin to assess this problem and how to solve it.

The CHAIRMAN. Mr. Shireman.

Mr. SHIREMAN. Thank you very much, Mr. Chairman and members of the committee.

As a country we need to boost the education levels of our population, but at the same time we need to make progress at the postsecondary level. We need to come to grips with the fact that debt has become the way that Americans pay for college. Two-thirds of students at 4-year colleges graduate with an average close to \$20,000 in debt. This is up 60 percent in just 7 years.

Now, on average that is not a problem because on average the college graduate will earn \$900,000 more over a lifetime than the average high school graduate. But as Milton Friedman pointed out when he first suggested a Government student loan program 50 years ago, there is much variation about that average in the income that people have over a lifetime. People have different careers that have different levels of earnings, even within careers. People live in different parts of the country, urban, rural, they specialize in different things within their career and earn different amounts, and there is even an element of luck that provides some people with greater earnings than others.

This threat of looming student loan payments creates problems. One is the disincentive to engage in service professions, teaching, a disincentive to go to places where salaries are lower, rural areas, for example. It also makes it more difficult for people to buy a home, to save for retirement, to pay for their health insurance. And now with students or borrowers out of school, extending their debt to up to 20 or 30 years into their own 40s or 50s, it makes it more difficult for them to help pay for their own child's college education and increases the amount that that child will end up having to borrow for college.

How do people get around these problems? One way they do it is they do not go to college. Kati Haycock mentioned some of those data about the number of highly-qualified low-income students who end up choosing not to go, and part of the reason they choose not to go is they do not want to have to take on that much debt. It is scary.

Another way that people cope is by going to school part time. It is wonderful to have the option of going to school part time, but a part-time student is much less likely to complete their education and get their degree and get those increased earnings.

Another way that people cope is that they work, and they work a lot. One-third of full-time dependent students in college work more than 20 hours per week. And for most of the majors that stu-

dents are in, that is too much work to be able to learn what they need to learn and complete. It is difficult to do.

These behaviors that are in part caused by the structure of our financial aid system rob our Nation of the productive potential and the creative contributions that these young people can provide to society and to the economy. It robs us of that brain power that we heard we need for our economy.

We can do better by college students and potential college students without spending more tax dollars. President Bush in his budget says that the guaranteed student loan program has unnecessary costs for taxpayers that prevent the program from achieving the efficiencies the market is designed to provide. He suggested \$25 billion in savings over 10 years. Senator Smith and Senator Kennedy have another approach which the Congressional Budget Office said would increase financial aid for students by \$17 billion over 10 years.

Now, I suggest two ways that we can invest these savings. One is to provide incentives to colleges and States to better serve students from lower income families so that they seek them out, counsel them, support them when they are in college and graduate them from college. I think it is interesting that two of the witnesses already have indicated support for the idea of support to States.

Second, one of the things that Milton Friedman suggested in his testimony was to make loans hurt less—not in his testimony, sorry, what he had to say 50 years ago—to target assistance so that payments are not too large a proportion of income.

Mr. Chairman, let me just mention a couple of other items that have come up already because I also serve on the Advisory Committee for Student Financial Assistance, and there has been much discussion of the need to help foster youth as they apply to higher education, and there is also an issue with a question on the financial aid form regarding drug convictions that scares a lot of young people and causes them to not apply for financial aid.

So thank you very much for the opportunity to testify.

The CHAIRMAN. Thank you very much, and you have a strong enough voice that none of us realized the microphone was not on.

[The prepared statement of Mr. Shireman follows:]

PREPARED STATEMENT OF ROBERT M. SHIREMAN

Mr. Chairman and members of the committee: Thank you for allowing me the opportunity to testify regarding the Federal role in promoting college access and success. Through the Higher Education Act, the Federal Government plays a critical role in making postsecondary education financially within reach for millions of Americans. But more than just serving individual students, the programs help to drive the economy. As Federal Reserve Chairman Alan Greenspan said in testimony last year, our versatile higher education system serves “the practical needs of the economy by teaching and training and, more significantly, by unleashing the creative thinking that moves our economy forward.”

With some urgency, Chairman Greenspan called for a more aggressive effort to expand educational opportunity. “As history clearly shows, our economy is best served by full and vigorous engagement in the global economy. Consequently, we need to increase our efforts to ensure that as many of our citizens as possible have the opportunity to capture the benefits that flow from that engagement . . . [O]ne critical element in creating that opportunity is the provision of rigorous education and ongoing training to all members of our society. This proposal is not novel; it is, in fact, the strategy that we have followed successfully for most of the past century and a strategy that we now should embrace with renewed commitment.”

More recently, Chairman Greenspan has also warned of the dangers of the large Federal deficit. As I will testify today, this committee has the opportunity to address both of these critical economic concerns: to significantly expand Americans' opportunities for postsecondary education and training, and to do so without adding to the budget deficit.

The Debt Generation

Over the past 20 years, the way Americans pay for college has changed dramatically. A system once based primarily on subsidized tuition and need-based grants is now dominated by student loans. For students from all socioeconomic backgrounds, debt has become a primary method of financing higher education:

- Just 15 years ago, only one in six full-time freshmen at 4-year public universities took out a Federal student loan; now more than half do.
- By the time they graduate, nearly two-thirds of all undergraduate students have accumulated debt, up from less than one-half just 7 years earlier.
- Between 1993 and 2000, the average student debt for recent graduates from 4-year colleges increased by 60 percent, to \$19,300; the proportion of parents taking out loans to help pay for their children's education also rose.
- In the baccalaureate graduating class of 2000, more than one-fourth had in excess of \$25,000 in loans. That is triple the proportion just 7 years earlier, when only seven percent carried that much debt (adjusted for inflation).
- Borrowers who go to graduate and professional school carry even larger debt loads. A 2002 Nellie Mae survey found average debt of \$45,900; for those who attended law and medical schools, the average is \$91,700.

Today's young adults are the first generation in American history to experience college debt on such a mass scale. How does this new reality affect the educational opportunities and outcomes that we want and need in this country?

At the Institute for College Access & Success, we have been exploring the perceptions that students, counselors, teachers, financial aid administrators, and education policy experts have about borrowing for college. We are finding an enormous amount of confusion and anxiety. It shows in the conflicting messages that people hear when they are thinking about continuing their education:

Message 1: Invest in yourself. **"Student loans are a good investment.** Your education will empower you to earn far more than you borrow."

Message 2: Protect yourself. **"Student loans can destroy your life.** If you default, your credit is ruined, and you can't get any more student aid. To avoid default, you might have to work two jobs, or forego the career you most want, just to keep up with your loan payments."

So, are student loans good, or bad? The real answer is, "it depends," which is why even college financial aid officials struggle with how to counsel students about loans. For example, Ohio State University has made a valiant effort with its financial counseling web site (<http://sfa.osu.edu/basic/debt.asp>). It provides tools for budgeting college costs and offers guidance for figuring out how much borrowing is too much.

The American Council on Education and others recommend that student loan repayments not exceed eight percent of a borrower's earnings. They call anything higher than 10 percent the "Red Zone"—the danger zone for default, diminished savings, and other risks associated with too much student debt.

But how many high school or even college students can predict with any level of certainty what job they are going to have, much less what their income is going to be? The only thing they can say for sure is that if they don't graduate, or they don't get the kind of job they want, or they don't get the salary they expect, then they risk defaulting and undermining their own financial future and possibly their families' as well.

Some observers criticize families who are more reluctant to borrow for college than to take on other types of debt. After all, postsecondary training is an investment that pays off handsomely in future earnings. But there are understandable reasons for such reluctance. If you have a mortgage, then you have a house. If you have an auto loan, then you have a car. But if you have a student loan, you do not necessarily have the increased income that you need to pay it off. While education does boost earnings in society in general, there is much variation around that average. And you can't return your education to the store for a refund in order to pay off the loan.

Student loans do offer real opportunities for millions of students. But with the promise comes real peril as well. This reality affects the behaviors and attitudes of students and potential students and their families—and thus has an impact on our educational outcomes as a nation. For Americans from all backgrounds, the looming threat of high loan payments—the Red Zone—has potential negative effects well before high school and long after a borrower completes—or fails to complete—a postsecondary program. These effects include:

- **Diminished college access and completion.** Some students of limited means are extremely reluctant to take out loans. This leads them to forego college altogether, or to engage in behavior that reduces their chances of completing a degree (such as attending part-time, enrolling at less supportive institutions, or working excessively while in school).

- **Disincentive for service careers.** Recent graduates who want to go into teaching, social work, religious service, and other helping professions find that their college debt pushes them in other directions.

- **Delay of marriage, family, and home ownership.** Student loan debt makes it more difficult for young adults to afford a home mortgage. Borrowers also report that it has delayed their plans for marriage and children.

- **Reduced ability to save for retirement—and for their own children's college education.** Increasingly, borrowers are extending student loan repayment across 20 or even 30 years. This reduces their ability to save for their own retirement, and to help pay for their own children's higher education expenses.

In my testimony today I will focus mostly on how college students and potential college students and their families think about loans. I will touch briefly on some of the other key issues, and then turn to what can be done about the problems.

Aid, Loans and College-Going Behavior

"I didn't get any financial aid. I got a loan"

Disappointed Student

One of the great attributes of our postsecondary education system is that there are so many different ways to enroll in so many different types of institutions. There are traditional residential colleges, commuter campuses, community colleges, career-focused night programs, intensive weekend courses, and online courses. This diverse array of options is a positive feature of our system. It means that people who would not enroll in one type of program have other options to consider. The problem is that financial considerations prevent too many students from choosing the approach that is the best fit for their qualifications, interests, and needs. This reduces their likelihood of enrolling in any program; and for those who do enroll, it diminishes their likelihood of success.

In the traditional model, high school graduates who cannot cover the full costs of college take loans and other aid, enroll full-time in a 4-year school, and keep their work to less than 20 hours a week. By focusing on their studies, these students are the most likely to graduate and to play productive roles in the economy and as citizens. Research consistently shows this is the most certain route to significant upward mobility.

The image we like to have of our system is of the hard-working student from a tough background who leaps far beyond his parents' educational and income levels. But this American dream doesn't come true as often as it should. It is students from high-income families who are most likely to take the 4-year-college route.

Set aside all of the students who drop out of high school, and set aside the high school graduates who are not qualified for college—two factors that disproportionately affect low-income families. There is still a large gap in college-going by family income. Among high school graduates who are from higher income families and are college-qualified, 83 percent enroll in 4-year colleges. But among low-income families, only 52 percent enroll in 4-year colleges within 2 years of graduating high school.

Where do the other college-qualified low-income students go? Twenty-one percent enroll at community colleges and may be as successful as they would have been at a comparable 4-year institution. But more of them—22 percent—do not enroll in any type of postsecondary program at all. The comparable figure for high-income recent high school graduates is only 4 percent. In other words, almost every college-qualified, high-income high school graduate enrolls within 2 years, while more than one in five qualified low-income students does not go at all.

For lower income students, affordability—perceived and actual—plays a major role in whether and where they go to college. It also affects how they approach their studies and, therefore, how likely they are to graduate. Research has found that if a young adult sees herself as a student, she is more likely to persist. And it is much more difficult to maintain that self-perception as a student if you are enrolled part-time while working, a pattern that is more common for students of modest means.

For full-time students, work is a factor, too. Up to around 15 hours a week, work is a positive contribution to achievement and college completion. But much more than that and it becomes an impediment. Nearly a third of full-time dependent students work more than 20 hours a week on top of their schooling. The lower your income, the more likely you are to be in this group. Of these full-time and hard-at-work students, 60 percent did not take out a student loan. In other words, 60

percent could have reduced their work burden with a student loan, but chose not to. Should they be congratulated for their commitment? Or pitied because they are more likely to drop out, or graduate with lower grades than they are capable of? How many talented students turn away from tough majors like science and engineering because the courses don't leave enough time for the work hours required to pay the bills?

Financial aid is certainly not the only factor behind these gaps in the quality and intensity of enrollment between lower and higher income students. But it is a contributing factor. Here is a taste of what we are hearing from college officials in interviews conducted for an upcoming report by researcher Pamela Burdman:

"Parents are very leery about loans. Sometimes it filters down to a student . . . For some, it seems that they weren't optimistic about their future. It's more acceptable if you were going to borrow money to purchase a car. It's more tangible. It can get you back and forth to work. They've seen people before them who have cars. Nobody before them has borrowed money to go to school."—Jennifer Roller, GEARUP director, Youngstown State University, Ohio

"Retention has been a problem at Carbondale. We did quite a few studies and we started to see that working over 20 hours a week started to disintegrate academic performance. Those students who were working a lot just to be able to go to school were not academically successful. They were defeating the purpose. There clearly seemed to be an issue that finances were affecting academic performance for some students."

—Dan Mann, former financial aid director, Southern Illinois University at Carbondale.

"I have actually had students tell me they aren't going to school because they can't get any grant money and they refuse to take on any loans."—Bill Nowlin, Dean of Enrollment Management, Northeastern

State University, Oklahoma

"How can we better explain this process, what it means and why it might be good to take out the loan when we all wish they wouldn't have to take out the loan? . . . Even though we wish that these students weren't having to take out these loans and graduate in debt, lacking other choices, we want our students to enroll, and do well and we don't want them working 25 hours a week."

—Karen Rice, financial aid administrator, University of California, Berkeley

After College: Staying Out of the Red Zone

While in college, the borrower's student loan experience is brief and relatively painless. The truly meaningful relationship with a student loan begins about 6 months after leaving college. That's when the bills start coming in.

College is an excellent investment. On the average, it pays off in additional earnings far more than it costs. But for the graduating class of 2000, it certainly didn't feel that way. A year out of college, a large proportion—36 percent were making payments that represented more than 8 percent of their income. These borrowers are not all doomed to a long-term struggle with student debt. Many of them will see their incomes rise substantially over time, and they will be able to pay off their loans without great difficulty.

But untold numbers make enormous life and career sacrifices to pay their student loan bills. They forego a career as a teacher or community health worker. They take a higher-paying job "for a few years to pay off the loans," then find themselves stuck in a career path that does not represent the best contribution that they can make to their community. Or they work two jobs, too tired to excel at either, and miss out on promotions that would ease their debt burden, or on time with their children during the critical early years. They delay buying a home, and then watch as prices rise for the home they could have had. They forego adequate health insurance, delay saving for retirement, and make other tradeoffs with potentially devastating consequences.

Millions of borrowers have gotten some relief because the recent low interest rates in the economy meant lower rates on student loans. Hundreds of thousands of them have taken the opportunity to lock in low rates through consolidation; more will do so prior to a rate increase scheduled for July 1. While some observers are concerned that the rate is "too low," it is the only real relief that struggling borrowers can currently get.

In the refinancing frenzy, it is easy to forget that there are many borrowers who are currently prisoners of their lenders, stuck with high fixed interest rates because of Federal rules that prohibit them from consolidating more than once. President Bush proposed granting them the right to refinance. Congress should follow up on his recommendation.

The borrower relief offered by refinancing opportunities is important. But there is a dark side of the refinancing boom. Many borrowers are being placed in the longest repayment plan for which they are eligible. In the first 6 months of 2003, Sallie Mae reported that half of the company's new consolidations were for 20 years or longer. This reduces the borrower's monthly payments, providing many with the help they need. But total interest costs are higher over the life of the loan, and extending repayment into most borrowers' 40s interferes with the need to save for retirement and for their own kids' college education.

Solutions

Congress can address these problems by using the Federal Government's current investments more effectively. It is not necessary to spend additional taxpayer dollars or to reduce student benefits as long as Congress takes the steps to make the loan program more efficient. This section focuses on how to spend the money; the next section focuses on where to get it. On the spending side, I recommend two strategies: (1) grant aid with accountability; and (2) loans that hurt less.

1. Grant aid with accountability. Elite universities are abandoning loans in order to recruit high-achieving students from low-income families. In the last few years, Harvard, Princeton, the University of North Carolina at Chapel Hill, and the University of Virginia all have launched new programs that promise students from low-income families that they will not have to take out any loans to pay for college. Initial reports indicate that low-income students, and minority students in particular, respond favorably to these programs.

Of course, most colleges and universities cannot afford to make blanket no-loan promises. They don't have the large endowments of more elite schools, and they enroll many more students from low-income families. But the strategy that high-status institutions are using suggests that increasing grants may be the most effective way to get more low-income students onto the college track.

What gets measured, gets done, and currently colleges and universities do not have enough reason to pay attention to their enrollment and retention of students from modest backgrounds. By attaching some campus funding to higher levels of Pell grant enrollment campuses would be more likely to implement and improve programs to increase those numbers all the way through to the baccalaureate. The Federal Government should provide some funding for grant aid to colleges—either directly or through States—in proportion to the number of low-income students that the institutions enroll and/or graduate.

This policy would have different positive effects at two different types of colleges. At higher-priced and more selective institutions, it would create incentives both to recruit high-achieving students from low-income families and to offer the financial aid that they need to enroll. To some degree, this has already begun to happen. Three years ago, with the help of Don Heller at Pennsylvania State University, I wrote articles in the *New York Times* and the *Los Angeles Times* that pointed out the low proportion of Pell grant recipients at some colleges and universities. Others then started drawing the comparisons between colleges, and the leaders of elite colleges are now paying closer attention to the economic diversity of their student bodies.

Low-cost institutions have a different problem. Too many of their students who likely qualify for aid are not getting it because there is no one to tell them that aid is available or to help them fill out the application. These are students who, if they had more aid, might attend full-time instead of part-time, or might enroll at a different institution, or might be able to get the child care they need in order to attend class consistently. At low-cost colleges right now, more students applying for aid just creates additional administrative work for the college. By providing some institutional funding with each Pell grant, the campus has an incentive to help all the students who are eligible.

This funding could be provided directly to colleges by the Federal Government. Another, probably better, option has been suggested by the Advisory Committee on Student Financial Assistance, on which I serve as a congressional appointee. This approach would create a Federal-State partnership, providing States with matching funds for policies and programs that improve college affordability, enrollment, and completion for their residents.

2. Loans that hurt less. Fifty years ago, the economist Milton Friedman said that the creation of a government student loan program would "do much to make equality of opportunity a reality, to diminish inequalities of income and wealth, and to promote the full use of our human resources." He suggested income-based repayment so that people could more safely take out the loans. Let's finally put his idea into meaningful practice.

Public policy should help hard-working borrowers stay away from Red Zone of burdensome debt without forcing them to spend half their working lives paying off their student loans. Past approaches, as well as the current income-sensitive and income-contingent repayment options, fail this test. They are better than nothing, but they provide inadequate relief, and they can extend repayment for too long.

We need a simpler, more effective design for income-based loan repayment assistance. This is critically important for two reasons. First, we need to be able to provide some assurance to students and families that a student loan will not ruin them. Our economy suffers when they decide against postsecondary education or when they work excessively during school. The purpose of the student loan program, after all, is to get people to give postsecondary education the old college try.

Second, we need to minimize the negative life and career effects that student debt can have on borrowers. A system that assists borrowers who are working but are still facing excessively burdensome loan payments will let graduates consider the best use of their skills and interests, even if it is not the career choice with the highest starting salary. It will make room for homeownership, entrepreneurship, retirement savings, and commitment to family, and reduce economic insecurity across the spectrum of student loan borrowers.

Improving Efficiency

There are a variety of ways that Congress could improve the efficiency of the student loan programs, and use those savings to ease the burdens of student loan debt.

A. According to President Bush's fiscal year 2006 Budget, "the Federal Government assumes almost all of the risk for the [student] loans, while Federal subsidies to intermediaries—lenders and guaranty agencies—are set high enough to allow the less efficient ones to generate a profit. These problems lead to unnecessary costs for taxpayers and prevent the program from achieving the efficiencies the market is designed to provide." To address this problem, the Bush administration identified \$25 billion in savings over 10 years. Some of those savings negatively affect borrowers. But at least half are positive improvements in efficiency, freeing up funds you could use to help borrowers when their payments are excessively burdensome.

B. Colleges have no incentive to keep taxpayers costs down in the loan programs; those costs are invisible to the institutions. Bipartisan legislation has already been introduced that would address this problem. Under the provisions of the Student Aid Rewards Act, the Secretary of Education would give colleges a share of the taxpayer savings when they utilize the loan program that the Secretary determines is "the most cost-effective for taxpayers." By aligning a college's incentives with taxpayer costs, this proposal, according to the Congressional Budget Office, would generate an additional \$17 billion in grant aid for low-income students over 10 years.

C. Taxpayers are currently spending \$240 million every 3 months to subsidize a guaranteed 9.5 percent interest rate for some student loans. Congress tried to fix this problem last October, but the payments have actually increased. Part of the problem with the new law is that it did not ban the "recycling" of loans carrying the excess subsidies. Recycling allows the loan companies to create new loans carrying the 9.5 percent guarantee by using collections and profits from prior 9.5 percent loans as capital. The lure of such large, taxpayer-assured returns is an invitation to abuse and the reason for the ballooning taxpayer costs over the last 2 years. I join with the Congressional Budget Office in recommending that this recycling be ended.

D. Congress should take a serious, independent look at all of the efficiencies that could be tapped in the government student loan programs without harming those the program was designed to help. First identify more cost-effective ways of providing students with the same loans and terms that they receive today. Then consider any changes in the design or distribution of student benefits. Compare them to the reforms proposed by President Bush. Compare them to other options. And give taxpayers the return they have every right to expect: real educational opportunity and a better educated workforce.

Fighting for efficiency is not easy. Those who benefit from the inefficiencies will resist change. Identifying improvements, particularly in a program that is financially complex like student loan systems, inevitably leads to competing and confusing interpretations of the data. Rely on the experts who work for taxpayers: CBO, OMB, GAO, the Education Department, and the Treasury Department.

We have a real opportunity to advance the education and training of our population, improving our economic competitiveness and making good on the American dream. Thank you for providing me with the opportunity to share my views. I look forward to working with you in the months to come.

The CHAIRMAN. Mr. Van Horn.

Mr. VAN HORN. Thank you, Mr. Chairman.

Wyoming Student Loan Corporation is a private non-profit corporation founded in 1980 at the request of former Governor Ed Herschler, who believed postsecondary education should be more accessible for Wyoming students. As a non-profit, Wyoming Student Loan Corporation returns its earnings after expenses to current, former and future students.

In its 25 years Wyoming Student Loan Corporation has provided more than \$900 million of educational loan assistance to more than 65,000 students and parents of students, and it has provided \$130,000 in scholarship assistance to Wyoming students attending Wyoming postsecondary institutions. For the Federal fiscal year 2002, the most recent year for which the Department has calculated default rates, our corporation's default rate is 4.9 percent, well below the national average of 5.2 percent.

In the past 6 years alone we have returned almost \$9 million to students in the form of reduced origination fees, interest rates reductions, loan principal forgiveness for those who graduate, and for any soldier in the armed forces including those in the Reserves and the National Guard.

However, our mission is not limited to today's college students or those high school juniors and seniors who already know that they are college bound. Equally important, if not more so, is the imperative to instill in the minds of elementary students and their parents the absolute necessity for post high school education and training so that as many young people as possible have both the vision and the belief that college is indeed accessible and affordable.

Our corporations have placed more than \$3.4 million in outreach and early awareness activities in the past 5 years, including our College for a Day Initiative. Just last week, as we have done for the past several years, we hosted Wyoming 6th graders, many from low-income families, as they attended Casper College and University of Wyoming, experiencing life on a college campus. For too many young students in rural States such as Wyoming, the word "college" simply has no imagery attached to it. By getting these younger students to a campus, they can have hands-on experience in a science lab or an art class, have lunch in the cafeteria, browse the library, and hear from college students about the importance of good grades, staying in school and setting goals in life.

The University of Wyoming and the 7 community colleges around the State are proactive in developing outreach campuses and distance learning curricula in order to meet as many needs of our residents as practical. The number of distance education courses in the State has grown dramatically in the last several years from just a handful in 1995 to more than 300 today. That is a sizable increase for Wyoming.

Yet even with these advancements, access to higher education in Wyoming and other rural States remains difficult and challenging. The cost of distance education is more expensive for the schools simply because there are fewer students to enroll in such courses. Not all courses lend themselves easily to web-based instruction, and there is still no substitute for classroom and laboratory instruction. Greater distances to travel to attend classes means

greater expenses for students of all ages. Median family incomes in rural communities trend lower than more populated towns and cities. Need-based financial aid is an absolute necessity for moderate- and lower-income dependent students and for working adults looking to upgrade their education and their skills.

The fastest growing occupations in Wyoming all require postsecondary education. Our population is expected to increase by 22 percent by the year 2015, far exceeding the national average of 13 percent. Yet during the same period the number of high school graduates in Wyoming is expected to decline by 23 percent. In addition, Mr. Chairman, Wyoming's baby boomers are reaching retirement age, and in the next 5 years significant numbers of our educators, engineers and business owners will be retiring. If these trends continue, half our State's population will be retirement age by the year 2020.

The implications of these figures are dramatic. The demand for a highly skilled and educated workforce will be greater than ever before, yet the supply of qualified individuals could be severely inadequate to sustain let alone grow our economy. These implications are the driving force behind our corporation's concerted outreach efforts to expand access to students who historically have low postsecondary participation rates. These include minorities, rural families and nontraditional adult students.

Workforce changes require lifelong learning. Pell grants, campus-based aid programs, the Federal student loan programs, and State and institutional aid programs all have one goal, to increase access to education. Student financial aid programs are the key to affording access to higher education and developing the Wyoming workforce necessary for the diversity of industries and professions.

Mr. Chairman, I would not have received the education I am fortunate to have received without the assistance of grants, work study and student loans. That is also true for my wife and our two sons.

Mr. Chairman, I applaud your efforts and the efforts of your colleagues to promote access to and affordability of higher education. Simplifying the Federal student aid application process and form will be an important step toward promoting access. I commend the Department of Education for the great strides in making the electronic version of the FAFSA quite user friendly. I noticed from recent experience.

But we know from recent studies that almost half of enrolled students across the country do not complete the FAFSA. Not having these individuals automatically eliminated for consideration under the Federal student programs, they miss opportunities for local and institutional scholarships. We have to ask, why do so many students opt out of the process before they even begin?

WSLC has provided countless free FAFSA seminars over the years. Parents and students come for help simply to understand the instructions. Time and again parents tell us the FAFSA process is as complex as filing one's Federal income tax return. Surely part of the reason for the complexity in the document is the complexity of the underlying need analysis formula. Mr. Chairman, we support the recommendations made by the Advisory Committee on Student Financial Assistance in their January 21, 2005 report to you.

I thank you, Mr. Chairman, and members of the committee, for this opportunity to testify, and I will be happy to answer any questions as time is appropriate.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Van Horn follows:]

PREPARED STATEMENT OF PHILLIP F. VAN HORN

Mr. Chairman, members of the committee, I am Phil Van Horn, chairman of the board and president of Wyoming Student Loan Corporation and president and chief executive officer of Western States Learning Corporation, which administers the student loan portfolio for Wyoming Student Loan Corporation and provides other educational support services. I am pleased and honored to have this opportunity to describe the importance of student aid programs in the development of Wyoming's higher education and workforce development initiatives.

Wyoming Student Loan Corporation is a private, non-profit corporation, founded in 1980 at the request of former Governor Ed Herschler who believed postsecondary education should be more accessible for Wyoming students. As a non-profit corporation, its earnings after expenses are returned to current, former and future students.

In its 25 years of service, Wyoming Student Loan Corporation has provided more than \$900 million of educational loan assistance to more than 65,000 students and parents of students and \$130,000 in scholarship assistance to Wyoming students attending Wyoming postsecondary institutions. Thanks to one of the best employee teams I've ever had the pleasure of working with, Wyoming Student Loan Corporation's default rate has consistently been among the lowest in the Nation. For fiscal year 2002, the most recent year for which the Department of Education has calculated, the corporation's default rate is 4.9 percent, below the national average of 5.2 percent.

In the past 6 years alone, the corporation has returned almost nine million dollars (\$9,000,000) to students in the form of reduced origination fees, interest rate reductions and loan principal forgiveness for those who graduate and for any soldier in the Armed Forces, including those in the Reserves and National Guard.

However, our mission is not limited to today's college students or those high school juniors and seniors who already know they are college bound. Equally important, if not more so, is the imperative to instill in the minds of elementary students and their parents the absolute necessity for post-high school education and training so that as many young people as possible have both the vision and the belief that college is, indeed, accessible and affordable. Both our corporations have placed more than \$3.4 million in outreach and early awareness activities in the past 5 years including our College For a Day initiative. Just last week, as we've done the past several years, WSLC sponsored and hosted Wyoming sixth graders, many from low-income families, as they attended Casper College and the University of Wyoming, experiencing life on a college campus. For too many young students in rural States such as Wyoming, the word "college" simply has no imagery attached to it. By getting these younger students to a campus, they can have hands-on experiences in a science lab or an art class; have lunch in the cafeteria; browse the library; and hear from college students about the importance of good grades and setting goals in life.

Mr. Chairman, you and I certainly know, and I'm confident other members of the committee are aware, that Wyoming is the least populated State in the country. Providing access to higher education in rural States presents unique challenges in terms of distance and technological infrastructure. The State's only baccalaureate and advanced degree institution is the University of Wyoming in Laramie. The University and the seven community colleges around the State are proactive in developing outreach campuses and distance learning curricula in order to meet as many needs of our residents as practical. The number of distance education courses in the State has grown dramatically in the last several years, from just a handful in 1995 to more than 300 today. Adult learners have greater opportunities for embarking on a new career path or upgrading their current skills.

Yet, even with these advancements, access to higher education in Wyoming and other rural States remains difficult. The cost of distance education is more expensive for the schools simply because there are fewer students to enroll in such courses. Not all courses lend themselves easily to web-based instruction and there is still no substitute for classroom and laboratory instruction. Greater distances to travel to attend classes mean greater expenses for students of all ages. Median family incomes in rural communities trend lower than more populated towns and cities. Need-based financial aid is an absolute necessity for moderate and lower-income de-

pendent students and for working adults looking to upgrade their education and skills.

The fastest growing occupations in Wyoming are in the fields of medicine and allied health, dentistry, engineering, communications, pharmacy, extraction, and education. All of these require postsecondary education. Our population is expected to increase by 22 percent by the year 2015, far exceeding the national average rate of 13 percent. Yet, during the same period the number of high school graduates in Wyoming is expected to decline by 23 percent. In addition, Wyoming's baby boomers are reaching retirement age and in the next 5 years significant numbers of our educators, engineers, and business owners will be retiring. If certain demographic trends continue, half our State's population will be retirement age by the year 2020.

The implications of these figures are dramatic: The demand for a highly skilled and educated workforce will be greater than ever before, yet the supply of qualified individuals could be severely inadequate to sustain, let alone grow, our economy. Even greater demands will be placed upon our institutions of higher education to provide education, training and retraining. These implications are the driving force behind our corporations' concerted outreach efforts to expand access to students with historically low postsecondary participation rates: minorities, rural families and non-traditional adult students.

Workforce changes require lifelong learning. As the workforce needs create demand for more courses, more instructors and more facilities, the cost of education and training will increase. Pell grants, campus-based aid programs, the Federal student loan programs, and State and institutional aid programs all have one goal: to increase access to education for all. Student financial aid programs are the key to affording access to higher education and developing the Wyoming workforce necessary for a diversity of industries and professions. Mr. Chairman, I would not have received the education I am fortunate to have received without the assistance of grants, work-study and student loans. That is also true for my wife and our two sons. We know first-hand the difference that Federal student aid dollars can make in access and affordability in higher education.

Mr. Chairman, I applaud your efforts and the efforts of your colleagues to promote access to and affordability of higher education. Simplifying the Federal student aid application process will be an important step toward promoting access. I commend the Department of Education for the great strides made in making the electronic version of the Free Application for Federal Student Aid (FAFSA) quite user friendly. I know this from first hand and recent experience. But I've also been in the student aid profession for 30 years.

We know from recent studies that almost half of enrolled students across the country do not complete the FAFSA. Not only are these individuals automatically eliminated for consideration under the Federal student aid programs, they may miss opportunities for local and institutional scholarships. We have to ask: Why do so many students opt out of the process before they even begin? WSLC has provided countless free FAFSA seminars over the years. Parents and students come for help simply to understand the instructions. Time and again parents tell us the FAFSA process is as complex as filing one's Federal income tax return. Surely part of the reason for the complexity in the document is the complexity of the underlying need analysis formula. Mr. Chairman, we support the recommendations made by the Advisory Committee on Student Financial Assistance in their January 21, 2005 report to you.

I thank the committee for this opportunity to testify and I will be happy to answer any questions you may have at the appropriate time. Thank you Mr. Chairman.

The CHAIRMAN. And again, I would mention that your full statements will be a part of the record, and I appreciate the additional information that is contained in that text as well.

We will now have a round of questions, and I get to start.

Mr. Van Horn, we know that rural students face many challenges getting to school and especially postsecondary school, and I congratulate you on the tour that you give for the 6th graders to finally get an image of what college is and think that could help across the country. Are there any best practices from Wyoming or other States you can suggest for Congress to look at as we amend it in regard to the rural students, and could you touch just a little bit on what impact the 50 percent rules had on access to higher education in our area?

Mr. VAN HORN. Mr. Chairman, rural communities do have their unique challenges and distance education, while the university and the community college have made great strides, it still is an expensive proposition for the schools within a State. In terms of the 50 percent rule and the practices within the State, because of Wyoming's uniqueness, Mr. Chairman, I do not feel confident to address that at this time.

The CHAIRMAN. OK. Then as I mentioned, we will be putting some of these questions in writing so that we can get an opinion from all of you on it, and also so that you can help us to get some additional expertise on it.

Ms. Thorpe, I really appreciate your impassioned testimony, and your ability to persist in spite of the tremendous odds is just outstanding. I congratulate on all of your accomplishments.

In your testimony you mentioned that after-school tutoring and guidance and encouragement are what allowed you to work through the Upward Bound and to even consider college. Can you tell us what factors were important in your ability to complete high school and succeed in college? Are there any things in particular?

Ms. THORPE. There were a lot of things in particular, but I believe the most important thing was my skills at math. When you miss the critical periods in math, you kind of miss out on a lot of things, and since math was a big part of school you had to take math every single year. I had no knowledge of how to do algebra, really of how to do fractions. I could not divide. And Upward Bound really took the time out to help me to be able to learn fractions. They would pay for me to go to extra tutoring sessions. When I was a senior in high school they actually paid for me to take a course at the University of Wyoming to help me out in math as well. So that was really helpful. And I am taking math now in college too.

The CHAIRMAN. Oh, good.

Ms. THORPE. So there you go.

The CHAIRMAN. Math and science is something that is disappearing a little bit among American born students. We are having a lot of foreign students that are doing that.

Something that we are really concerned about is the availability of information about student financial aid as well as the availability of the student aid, and ways to simplify the process. How can we get information sooner to people to might be encouraged to go to college, and any ideas on how we might simplify that application process? This is a question for the whole panel, but I will start with Ms. Thorpe.

Ms. THORPE. I think perhaps providing some sort of a session maybe inside the high school or a class. I know at my high school in particular they had a class dedicated for basically a study hall and it was mandatory, so maybe perhaps during one of those sessions. In other high schools as well, to have a class where you actually learn how to fill it out, because a lot of parents do not know. I was fortunate to have people who were helping me out with these applications such as the Upward Bound coordinator and the director of the program and my foster parents, but a lot of the kids that I was going to school alongside who were not in the Upward Bound program had no way or no knowledge of how to fill these things

out even though they were eligible. So, perhaps having classes, sort of like taking the LSAT or something like that.

The CHAIRMAN. Anyone else? Mr. Shireman.

Mr. SHIREMAN. Thank you. I would say that the GEAR UP and TRIO type programs that can provide early counseling and information, as early as middle school, to parents and to students are critically important. Also Congress asked the Advisory Committee on Student Financial Assistance a year ago to look at simplification and issues of earlier application. And the Advisory Committee a few months ago, on which I serve, came out with a number of recommendations. Some of those were eliminating some questions and simplifying for everyone. We did find that because this is all an effort to try to ration a particular amount of money that is available, that you cannot eliminate as many questions as might be—as people would like you to eliminate. However, there are people who are very low income where complicated issues about assets probably do not need to be asked, and the Advisory Committee recommended that they be provided with an easy type form for families with income of under \$25,000 and some other recommendations like that. So that not everyone has to fill out an application with 100 questions on it.

Also on the question of earlier application, we are in the situation where now the traditional college student, in October of their senior year, fills out an application to go to a 4-year university, and then 2 months later on January 1st, they can fill out the form to figure out what their financial aid might be. For a lot of people getting a sense of what your financial aid might be has a lot to do with where you might apply to college, and the Advisory Committee suggested that people be allowed to apply and get their estimate of financial aid earlier, like they could apply in September or they could apply at the same time that they are applying to the college. There has been a lot of interest in that recommendation and it is not something that would cost the Government any more than the way the process works now.

So there are some steps that can be taken that could improve the process for students and families.

The CHAIRMAN. Thank you. My time has expired.

Senator Murray.

Senator MURRAY. Thank you very much, Mr. Chairman, for having this hearing.

And thank you to all of our witnesses for being here. I think the reauthorization of the Higher Ed Act is one of the most important things we can do to make sure that our students, especially low-income, minority have access to higher education. It is key to our country's economy, so I appreciate everybody being here.

Mr. Shireman, let me start with you. As you probably know, Senator Kennedy and I have been working on a complete closure of the 9.5 percent loan loophole. Last year we were successful in closing part of that, but we still know these loans are being recycled. In fact I saw in the New York Times recently that the Federal Government is still, what they said, hemorrhaging money to lenders who figured out how to abuse some of these loans.

You mentioned in your testimony that taxpayers are currently spending \$240 million every 3 months to subsidize these loans. Can

you talk to us today about how some lenders are figuring out how to continue to manipulate these and how much it is costing us?

Mr. SHIREMAN. A little bit of background on this issue. Some years ago the Government decided that student loans made from the proceeds of tax exempt bonds needed to have some different subsidy rules than other loans. And during a period of high interest rates, we, the Federal Government, guaranteed that holders of those loans would never have to receive less than 9.5 percent interest on those loans even if students are paying less. Now, of course for the past few years students have been paying, borrowers have been paying much less than 9.5 percent, and so these loans—and this is a rule from 1980—started looking to be quite the money maker. And some of them had moved from non-profit organizations into for-profit lenders, so that the proceeds from making more money would just go to shareholders' pockets with no risk, rather than to the good uses that might go from a non-profit organization.

Some of those lenders made the case that they had this limited pot of funds that was supposed to be for 9.5 percent loans. And they said, well, if we put a loan in there for a day and take it out, we think it still should get the 9.5 percent for the life of that loan. And they started dipping these loans into this pot and taking them out. And over the last 2 years the amount, the dollar amount, a volume of these loans increased from \$11 billion to \$18 billion, costing the Federal Government to subsidize those.

Congress said no more, except when people pay off these loans you can take those proceeds and make new loans with those proceeds. Now, that essentially means it will go on for many years to come, and now we are seeing that actually the costs are increasing even after Congress stopped the provision.

What I think is happening is that you have this pot that pays 9.5 percent and you have other loans that lenders have, and that they are figuring out how to switch loans, because they can take proceeds here and use them to make new loans. They can move a loan from one pot to another to figure out how they can maximize the amount that taxpayers are paying, and that is what this recycling provision allows. It is something that in their—

Senator MURRAY. So we still have a problem that needs to be fixed, and it is costing us.

Mr. SHIREMAN. So we still have a problem and this could just go on for years and years.

Senator MURRAY. Right. I very much appreciate that.

Trinity, thank you very much for your testimony today. You certainly are a compelling witness for TRIO and GEAR UP and programs like that that really allow students without who do not think they have a chance, to have a chance.

I actually was with Bill Gates this morning. I wish I had met you before because I could have told him what a difference he is making in the world. So I am delighted that you have been able to take advantage of that.

You talked a little bit in your testimony about being a foster child.

Ms. THORPE. Yes.

Senator MURRAY. Senator DeWine and I have worked for a long time together on making sure we decrease barriers especially for

foster kids. One of the things that I have heard repeatedly from students who are foster students is the particular barriers they have in going to college because once you are 18 you are no longer in the foster system. You do not have that parent support network. You are very lucky to have your foster mother still here with you. But financially it makes a difference. But for this committee, could you talk a little bit about what the particular challenges are for a foster student in applying to college and financial aid?

Ms. THORPE. I think I was an exceptional case for a foster kid because I did have very supportive parents, foster parents, and my biological mother and I are actually still very close. So in that I might not be able to speak on behalf of all foster kids.

But in particular some of the challenges that I faced were just self-esteem challenges. As a foster child I often was not wanting to tell other people that I was a foster child or that I was poor, that I had grown up at a certain situation. So the biggest challenge that I faced was being able to write that in applications or write that on my FAFSA, you know, check the little box for ward of State. It kind of makes you feel like you do not really have a home or that you do not really belong anywhere, that you actually belong to the State instead of to a family. So just the self-esteem issues really posed a problem for me, and thinking about going to college especially.

My mother did go to college for a little while and she still has dreams that she wants to go back. This is my biological mother. But the truth of the matter is she will not ever be able to go back because she will not have the opportunities to do that. That also posed some problems for me because my mother did not have an education. She does not see the value of an education, and actually not very long ago she asked me why I was not pregnant yet and why I was not married. So this is the kind of background I grew up in, you know, with people kind of telling you other things.

My freshman year I met my birth father for the first time, my freshman year in college. When I went to go and tell him about my accomplishments he completely did not understand it because he does not have a college education. He is a bus driver in Mexico, just completely cannot comprehend the challenges or the struggles that I faced and what I have overcome to be where I am.

Senator MURRAY. You have done well and we are all very proud of you and delighted to look at you here in front of us today.

Ms. THORPE. Thank you.

Senator MURRAY. You are a role model for many other young kids in your same circumstances, so thanks for being here.

Ms. THORPE. Thank you.

Senator MURRAY. Mr. Chairman, I know my time is up, and I do have to go to another committee hearing. I do want to submit some questions for the record in particular to Ms. Haycock because I have been working on some of the realignment issues between high school and college which I think are very critical for this committee to look at as we try and encourage States to make sure that high school graduation and college entrance exams work together, and how we as the Federal Government can help encourage that. So I will submit those for the record, and look forward to your response.

Thank you.

The CHAIRMAN. Thank you.

Senator Alexander.

Senator ALEXANDER. Thank you, Mr. Chairman.

I want to thank the witnesses and say to Ms. Thorpe how impressive she is, and I thank you very much for being here.

I want to make two or three quick comments in my time and then ask a question of any of the panel members who may want to comment. One, I want to commend the Department of Education and the Advisory Committee that has been mentioned in the testimony for its work on simplification of student forms. I mean they have really done some good work, Senator Enzi, as you well know, and really at the request of this committee, and 8 of their 10 recommendations do not cost anything. Some of them are complete common sense. I mean a large part of the complication of the form had to do with questions California insists on knowing the answer to. If you just take those out you simplify it for everybody else in the country.

My humble suggestion is to change the name of the thing, because why would anyone go to conference on FAFSA who had never heard of FAFSA. They would not know what you were talking about, and I am quite serious about that. It needs a name that someone who is not from Washington would understand.

Second, another contribution I think we can make in this bill has to do with the testimony on loan eligibility and limits on loan to better fit the traditional student, I mean the students who are actually in higher education today. We have impediments to what we are talking about here which we are causing by our limits on loans and grants, and we can afford to do those changes. That could happen.

A third thing I would like to mention, I am all for the college/high school articulation as they say, but I am very leery of doing it from here. Our colleges and universities did not get to be the best in the world because somebody in Washington made them that way. So I think we have to be very careful with our well-intentioned orders from Washington not to actually over regulate colleges and universities and in effect make them worse while we are trying to make them better.

I am sensitive to the point you made about the question about drugs. I mean Congress gets excited about things. We are all excited about drug use and so we order it stopped from here, while what we may be doing in an unintended way is adding to the complexity of an application form and discouraging low-income students from applying for loans. I am working on legislation—I have talked to Senator Enzi about it—about actually looking to deregulate in some ways colleges and universities.

Here is my question. Cost is very important. It was 20 years ago, it is today. Its always hard to pay for college even today. But I think it is important to keep this in perspective and understand what we are talking about. Community colleges are \$2,000 or so, at least where I come from, a year for tuition, and there are multiple scholarship opportunities for students to go there. When I was at the University of Tennessee we used to encourage students to go there and then come to the University of Tennessee. We would save places for them after their first 2 years. But the big change

it seems to me is lack of State support for higher education, and I think we need to talk about that. I mean Federal funding for higher education between 2000 and 2005 went up nearly 50 percent. We are actually spending 50 percent more dollars on higher education from here than we were 5 years ago.

Now, what was happening in the States during that time? According to the American Association of State Colleges and Universities—and I mention them because this seems so low that I am going to go back and double check it—in 2001 State spending was up 3.4 percent. In 2002 and 2003 it was actually down, it was down. In 2004 it was up 3.8 percent. If my math on the back of my page here is correct, Mr. Chairman, that means that over the last 4 or 5 years Federal funding for higher education was up 14 or 15 times more than State funding, and I think I know why. I think it is because we failed to give States the ability to restrain the growth of health care spending and it is soaking up all the dollars, and as a result there is no money left for higher education because it is the one that gets cut first when money goes to health care.

I wonder if there are any comments on that from any of the panel members about how we keep this in perspective as we reauthorize higher education?

Mr. SHIREMAN. Senator Alexander, thank you. I think you were right on target in terms of the number one reason that we have seen significant increases in tuition has been the lack of, the declines in State support. We are in a situation now where we have more students graduating from high school and therefore more students going to college, and less State support at the same time. The \$2,000 price of a community college can be \$2,000 because of that State support, because the actual cost of providing that education is of course much higher than that \$2,000. So the natural result, even if there is no increase in the actual cost of providing the education, the lack of State support has to drive up those tuitions in order to maintain the provision of the education to the students.

So, absolutely, the issue of health care costs in addition to being an issue for States to the extent that costs are increasing for colleges and universities. They also are paying health care costs that are getting difficult for them. So that is right on target.

Senator ALEXANDER. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. I am going to ask a few more questions because I have some of a general nature that more than one of you may want to comment on. I am pretty sure this one Ms. Haycock and Mr. Bosworth would want to comment. We are interested in finding out what Congress can do to develop a system that holds institutions accountable for the persistence, for the completion, for the graduation rates of the students while still recognizing that institutions have varied missions and serve students with different needs and responsibilities. What kind of ideas could you share with us?

Ms. HAYCOCK. Thank you, Mr. Chairman. As I indicated before, one of the basic problems that we have now is that a lot of folks within higher education think that their current success rates are about as good as they can do, and we will certainly find, when we visit a college or university, we ask about their 6-year graduation

rates, and they will say, you know, 28 percent. We will say, what is with that? And the answer typically is, well, that is about what you get for students like ours.

As I indicated earlier, it is actually quite clear that that is not the case. Yes, student preparation matters, and yes, student financial aid matters. But even when you take institutions that serve very similar kids with very similar resources, they have quite different results. So the question is: how you sort of break through the mindset that says, we are doing about as well as we can, and begin to get some energy into student success.

At the moment there are not real incentives to do that. What happens now is if you look at 4-year colleges, for example, of those who enter as full-time freshmen about a quarter do not even make it to the sophomore year, but frankly, it does not matter much to the institution because there is another wave of entering freshmen to take their places.

Mike Kirst at Stanford University says it is a little bit like French warfare in World War I; a set of soldiers comes up out of the trenches, gets mowed down, but that does not really much matter, right, because there is another set right behind them, and that is essentially how the economics work. And those freshmen, who are cheap to educate by comparison, actually subsidize the upper division students who are more expensive. So the question is how to turn those incentives around.

Our sense, as we look at the data, is that what you really want to do at this point—because from a national level it does not make sense to mandate a particular one, sort of one approach—is to ask States to design systems that make sense in their State, to say to institutions, here is a set of stretch goals on the access side, and here is a set of stretch goals on the success side, and we are going to monitor your progress, provide rewards for those that improve their access and success, and some penalties for those who do not, and some support for institutions that frankly have rates that are unacceptably low.

Again, I think that if you ask States to do that, then 6 years from now we will know something more as a country about what works and what does not. We do not know that now because virtually nobody is trying.

The CHAIRMAN. Mr. Bosworth.

Mr. BOSWORTH. Just a couple of observations focusing perhaps more on 2-year schools than on 4-year schools with these. Schools are paid for enrollment, not for success. Most community colleges, if you show up on the campus the 11th day after the semester has begun, you will notice a sharp drop-off from the 10th day because it is the 10-day count that determines how much money a school is going to get in its next year budget. So it is all about building enrollment. It is not all about building completion. Colleges are not rewarded for degrees or other credentials that they provide to their students. They are rewarded for boosting enrollment. It should not come as a great shock to us to realize then that that is what we get.

I think it is useful to look at some examples in the proprietary postsecondary arena where proprietary schools, particularly those dealing with technical and professional credentials, are not paid for

enrollment, they are paid for success. There are some behavioral differences between those schools, the private 2-years and the public 2-years in how they manage enrollment and the kind of flexibility that they offer. I am not suggesting that we just go out and try to emulate the 2-year private college system. It is extraordinarily expensive. People are paying \$10,000 to \$20,000 in a private 2-year technical school, but they are getting success. As the head of one such institution said to me, "We cannot attract students if we cannot demonstrate to them that if they come here and spend that much money, \$10,000, \$15,000, \$20,000, they are going to get the credential they thought they were paying for. It is going to be there. So success is really important to us."

Imagine if that were the attitude in public postsecondary education.

I also want to note that in the community college arena, I think it is essential to be a very fine-grained approach to these accountability measures. When a student enters a community college with the intention of gaining a 4-year degree but starting at a community college, the objective is transfer, it is not an associate degree. And so the community college should not be held accountable for whether or not it awards an associate degree after 2 years to that individual. What it should be held accountable to is, have we successfully transferred this individual after 6 months, 1 year, 18 months, 2 years, however long it takes, to a 4-year institution because that is their objective, the 4-year degree.

On the other hand, if they are entering the labor market and they are looking for a credential that has labor market consequence that means something out there to employers, they should be held accountable for providing that particular credential. It is difficult when all the credential in the academic arena are—you have to cram them into a 4-year or a 2-year associate degree. A lot of the labor market credentials that would be very useful do not require a 4-year or a 2-year degree. Some might require a 3-year degree, some might require a 1-year certificate, but we are trapped in an environment where the educational institutions have packages, and some of these packages have no labor market consequence.

The CHAIRMAN. Thank you. My time has expired again.

Senator Alexander.

Senator ALEXANDER. Thank you, Senator Enzi.

I appreciate the issue the witnesses were just discussing and I notice that they are being I think appropriately restrained in recommending a heavy Washington hand and figuring out how to do it. One might argue that some of it has taken care of itself. We have in higher education, which we do not really have very much in K through 12, a big marketplace out there. The fastest growing part of the Pell grants is not in the public sector, it is in the for-profit sector. Maybe it is because there are some schedules and rigor and credentials being offered in the for-profit sector that are more attractive, more meaningful, more convenient than people are finding in the public sector, and fortunately we have a market-based system where the money follows the student to an institution which may include a for-profit institution or a private institution or in many cases a distant learning institution. So in that sense

the entrepreneurial spirit of the marketplace is putting some pressure on the more hide-bound public institutions.

I would argue too that in my experience the community colleges and technical institutes, the 2-year schools, are a big part of that marketplace. They are very entrepreneurial, enterprising, often operating in effect year round, constantly changing their curricula to meet the needs of the market.

The other things I think have to be considered are that many students go to higher education not to get a degree. They go to learn something and then to go on to a job or go back and live a better life, and we have to be careful in the way we count all this to make sure we do not penalize that. I mean the typical student now is not a high school graduate, it is somebody who is a working mom going from this job hopefully to a better job, and she may not need a degree to get there. She just may need a course or two, or three or four, and that is somewhere in the statistics.

Just a couple of other points on that. And so many of these students who need so-called remedial help getting into college are not the high school graduates. They are, as has been mentioned, the adults who are going to go back again and back again and back again, that we need to recognize that most of us when we go out of school for a while and then go back to school are going to need a little ramp up to that even if we are pretty smart and pretty well educated. It is not easy just to get right back into a rigorous algebra course or statistics course, which is what you have to have if you want to work in the Saturn plant today. You have to know these things.

So I was wondering, listening to your suggestions, whether maybe a grant to encourage our big market-based higher education system to pay more attention to getting people through more rapidly where appropriate, I mean two ways to look at it would be one for us to get out of the way. We can do that with our limits on loans and changing Pells and loans so year-round students can do that. We have some actual impediments to what you are talking about. We should certainly look for those. And rather than tell States what to do, maybe we could make some large grants to States who are interested in doing this. I have had more confidence in a State gathering of institutions, public, private, non-profit, and say, how are we going to approach this, rather than a group of people in the Department of Education or on the congressional staff here trying to think of ways to do it, because I have been both those places and I did not get any smarter when I flew up here at the beginning of the week than I was when I was back in Tennessee. [Laughter.]

So I ask you. Let me start with Ms. Haycock. What about a large grant to two or three or four States to say, figure this out as best you can in your State and let us see what you come up with and see if we learn anything there that might affect Federal policy?

Ms. HAYCOCK. You could certainly do that, Senator. I would argue, however, that the problem is much more serious. While the phenomenon you talked about may well be putting some pressure on institutions here and there around the country to get better results, when you stand back and you look at higher ed output in the country as a whole, we are stuck. As I said earlier—

Senator ALEXANDER. Output measured by what?

Ms. HAYCOCK. As measured by the proportion of young people getting a college education. We are no longer first in the world. We are 7th in college going. We are not first in college education. We need more students with baccalaureate degrees. And you are putting a lot of public dollars into students who are going on to institutions with every expectation of getting a degree, and those institutions are not taking responsibility for helping them get through.

You could again, not by telling States what to do in every detail, but by asking States to put into place a system that will measure student success, will set some stretch goals for institutions, and monitor their progress in getting there.

Senator ALEXANDER. That sounds like No Child Left Behind for colleges to me. [Laughter.]

Ms. HAYCOCK. That is actually not at all like No Child Left Behind. It is simply saying—

Senator ALEXANDER. All it does is ask States to adopt standards and measure progress toward standards.

Ms. HAYCOCK. Right, but there is a fixed way for measuring progress, as you know, which given the differences among the States in terms of data systems, in terms of the capacity to do this, does not make sense to do at the higher education level. That does not mean, however, that you ought not to ask them to do something.

Let me just give you a couple of statistics. There are about 771 institutions in this country, 4-year colleges where at least 5 percent of the students are black. In like 271 of those institutions, the 6-year graduation rate for black students is less than 30 percent. In 160 of those institutions, the 6-year graduation rate for black students is less than 20 percent. In about 70 of those institutions, the 6-year graduation rate for black students is less than 10 percent. We can do better than that.

And if we were willing simply to say institutions, you need to take that seriously, you need to set some stretch goals, that is not suggesting that a very nonselective college needs to have a graduation rate like Harvard's which happens to be best in the world. It does suggest that 10 percent of your students getting through in 6 years is not as good as you could be doing.

What I am simply suggesting is our stake as a country, both in having more college graduates, and in particular in making sure that higher education continues to be a route out of poverty, our stake in that is huge. We have said since our beginning that we will provide to talented young people the opportunity to continue their education regardless of their family income. That route is essentially closed now. Seven out of 100 low-income students now gets a college degree, compared to 60 out of 100 middle-income kids.

Senator ALEXANDER. Mr. Chairman, my time is up. I would just observe I agree with all the factors. My fear is that in devising a Federal plan to deal with that limited number of examples you mentioned, it would then apply to everybody and create one more big level of Federal regulation, one big more thick book that college presidents would have to do. You would not suggest just applying

it to the schools that have black students because that would not seem fair.

I think the better solution would be either to ask States to do it or I would create a Pell grant for kids. The reason these children are not succeeding in college is because they are not prepared when they get there, and if we gave them a scholarship to go to a good school when they are a kindergarten student or in first grade or second grade or third grade, that I think would be more of an appropriate Federal response.

Ms. HAYCOCK. I actually think we do not disagree, Senator. I did not suggest one Federal approach. What I did suggest is that you ask the States to take this on.

The CHAIRMAN. I want to thank all of the panel for their outstanding testimony, their presentation, their answers to questions. One of the joys of this job is that we get an education almost every day. I think we probably get the equivalent of a college course every month, and it is all helpful. Hopefully we are able to turn that into legislation that makes a difference. That is what we are always counting on. These panels never give us the opportunity to really get into some details that you have suggested in your testimony that we need to explore a little bit further so that we can come up with some logical answers.

I really appreciate all of you being willing to testify. I know that we made the request on a very short notice, and we are appreciative that you complied with that and were here. What you have said was stimulating and thoughtful. I am an accountant so I do have some more detailed questions that I have learned not to ask when we are at these kind of gatherings. [Laughter.] And particularly for Mr. Van Horn, because I am fascinated the how your organization has a lower default rate than others, and want to explore a little bit how you might perceive that that comes about.

So we will be submitting questions to all of you and would hope that you would respond. We will leave the testimony open for 10 days. You can also expand on anything that you have said. We appreciate it.

The hearing is adjourned.

[Additional material follows:]

ADDITIONAL MATERIAL

RESPONSE TO QUESTIONS OF SENATOR ENZI BY KATI HAYCOCK

Remedial Education

Question 1. The need for remedial education has important connotations for today's students. How can the HEA be shaped to reduce the need for remediation, and what changes should Congress make in the TRIO and GEAR UP programs to focus more on academic preparation?

Answer 1. The need for remedial education can be minimized (1) by making sure that higher education clearly articulates the level of knowledge and skills students need to successfully complete college-level work, and (2) ensuring more students are prepared to meet these standards.

Students should know whether they are being prepared to succeed in college. With more and more students entering college, it is imperative that we have clear, public statements about the knowledge and skills college freshman need to be successful in credit-bearing courses. For too long, this information has been treated as proprietary information by institutions and systems of higher education. Students, their families, and their schools need to know what higher education expects of college freshman when they arrive on campus. Community colleges must be involved in this process, so their students also know where they stand in terms of preparation; our experience working on articulation projects in higher education suggests that the standards for credit-bearing work are quite similar across 2-year and 4-year institutions.

Some places are making sure high school students have this information. The California State University system, for example, offers its placement exams as an add-on to the assessment taken by every California 11th grader. With these results, students know whether they are ready for college-level work, and have a chance to focus on their weak areas before entering college. Congress could support alignment and articulation activities, and could expand programs that seek to align high school assessments with college-readiness standards. These activities would ensure that more students know where they stand in academic preparation as they aspire to enter and succeed in higher education, and minimize the need to remediate students once they have arrived in postsecondary education.

In addition, we know that the courses students take in high school are the single best predictor of whether they succeed in college. Congress can minimize the need for remedial education by (1) supporting States that are willing to make an academically rigorous, college-prep curriculum the default curriculum for all students and (2) by boosting Pell grants for students who complete this college prep curriculum. This should not substitute for restoring Pell grants to their historical buying power, but should be seen as a complementary strategy that could entice more students from low-income families to complete the curriculum that is most often associated with success in college.

Transfer of Credit

Question 2. Given that a growing percentage of students will attend more than one postsecondary school or college during their academic career, what changes can we make in the Higher Education Act so that students do not have to duplicate coursework unnecessarily?

Answer 2. The most efficient way for Congress to ensure that students do not have to duplicate coursework unnecessarily is to support articulation agreements between 2-year and 4-year systems and institutions. For instance, it should be clear to students in community colleges whether the courses in which they are enrolling have been certified by the State's 4-year college system as courses for which transfer credits will be accepted. If not already required, Congress could ask States to ensure that a system is in place for institutions to work together to certify courses that will be accepted for credit at other institutions (and to clearly indicate which institutions), and to require that courses are clearly tagged with this information in course registration materials.

Integration of Programs with Higher Education

Question 3. At our April 14 hearing on lifelong learning, we learned a lot about education silos and programs that are not as effective as they could be because they are not coordinated or well integrated. What can Congress do during reauthorization of the Higher Education Act to facilitate better coordination among the TRIO and GEAR UP programs so they provide comprehensive services to help students get ready for college? How can non-traditional students who have the same kinds of needs be identified and served?

Answer 3. Both TRIO and GEAR UP play critical roles in exposing students to college aspirations and in helping students navigate the complicated college application process. The success of both programs could be extended by the kinds of activities described in response to Question 1.

If higher education were more clear about the level of reading, writing, and mathematics that incoming freshmen need, then high schools, and those that administer TRIO and GEAR UP programs, would have clearer targets for making sure their students were on-track to succeed once they arrived at college.

Too many students who aspire to college are not taking the challenging, rigorous courses that will prepare them to succeed—and this problem is most prevalent among the low-income students and students of color who are the primary beneficiaries of the TRIO and GEAR UP programs. Congress could bolster programs that increase college access by making sure that States provide schools, counseling programs, and students themselves with better information on the benefits and importance of taking the college-prep curriculum. Congress could also provide incentives for students from low-income families to complete the college-prep curriculum.

In addition, Congress could encourage TRIO and GEAR UP programs to utilize federally collected data on institutional graduation rates. Using disaggregated college graduation rates, TRIO and GEAR UP programs could counsel students to evaluate colleges in part on the institution's track record of helping students stay in school and earn diplomas.

Each of these proposed activities would build on the good work being done in TRIO and GEAR UP to ensure more students are prepared for and succeed in college.

RESPONSE TO QUESTIONS OF SENATOR ENZI BY TRINITY THORPE

Transfer of Credit

I don't have any suggestions to offer.

Parental Involvement in the Financial Aid Process

Question 1. What role should parents play in helping students (with success in education)?

Answer 1. Parents should play the role as supporters but one of the largest problems with this for low-income families is that there is a lack of information concerning education. Most low-income parents feel that continuing education is going to be a burden; they do not realize that there are many opportunities for their children to attend an institution for higher education such as scholarships and financial aid. Once low-income parents realize there are ways for their children to go on to college and carry little debt while their, parents will probably be more supportive. Many parents discourage their children from even the thought of going on to college based on their financial situations.

Question 2. Awareness activities for students with limited or no parental involvement.

Answer 2. I believe that if programs such as the TRIO programs are eliminated from the budget than financial aid awareness for students might never take place. I feel that increasing these programs by bringing them into more high schools can aid more students by offering the activities for financial aid awareness, which are already present, to a larger population. Often times school counselors have too many students to be able to reach each one, but through the TRIO programs more students, who might not otherwise be made aware of their financial options, will be made aware through their increased involvement in programs that already exist.

RESPONSE TO QUESTIONS OF SENATOR ENZI BY BRIAN BOSWORTH

Question 1. Transfer of Credit.

Answer 1. Out of area of expertise.

Question 2. TRIO and GEAR UP programs.

Answer 2. Out of area of expertise.

Question 3. What works for persistence and completion for non-traditional students?

Answer 3.

TITLE X OF THE HIGHER EDUCATION ACT

A NEW FEDERAL-STATE PARTNERSHIP IN HIGHER EDUCATION TO MEET THE SKILLS CHALLENGE OF THE 21ST CENTURY KNOWLEDGE ECONOMY

Quick Summary

This short policy brief outlines a new Federal strategy for helping working adults gain the postsecondary educational credentials they need for success in the 21st century economy, and which America needs to strengthen our global competitiveness. This brief suggests embodying this strategy in a new “Title X” of the Higher Education Act that would be focused explicitly on working adults and aimed at helping the States make those changes in their higher education governance, financing, and programs that would promote access and success for working adults.

Problem Statement

The 2000 census revealed that of 110.5 million adults in the U.S. workforce, only about 40 percent had any postsecondary degree (associate's, bachelor's, or advanced). About 10 percent of all adult workers had not even finished high school, and 31 percent had not attempted college after high school graduation. An additional 19 percent had “some college, but no degree.” Some of these may hold certificates from programs shorter than 2 years (or hold industry recognized credentials), but most probably attended college briefly after high school and dropped out before achieving any credential.¹

We can conclude that about 60–65 million working Americans have no postsecondary educational degree or credential of any kind. Without it, they are at risk of slipping into the bottom ranks of the economy, or never climbing out of them. Just a few decades ago, a high school degree, a strong back, and a good attitude may have been adequate to guarantee entry to middle class occupations. But this is no longer true. Over the last 20 years, men with only a high school degree have seen their wages fall by nearly one-fifth (from \$679 per week to \$559).²

Additionally, the wage premium for skills and credentials has grown. Average earnings for associate degree recipients are nearly 1/3 higher than are earnings for workers with merely a high school degree. Earnings for those with a 4-year degree are nearly 2/3 higher than high school graduates with no college. Moreover, the earnings gap between those with college credentials and those without is growing at an accelerating pace. The Bureau of Labor Statistics estimates that the real wages of men in the bottom 10 percent of full-time workers fell by 22 percent from the late 1970's through the mid-1990's. In the late 1990's, these workers earned an average of \$275 per week, compared to \$1200 per week for the top 10 percent of workers.³

Over a lifetime, these huge gaps in annual earnings translate to crushing disparities in the lifetime accumulation of assets. The Census Bureau estimates that individuals with a bachelor's degree will earn on average \$2.1 million over their work-life (40 years of full-time, full-year work). This is about a third more than workers with only some college education and nearly twice as much as those with only a high school diploma.⁴ Consigned to low-wage labor markets, few of these non-college-educated workers will be able to buy their own homes or send their children to college.

This is a serious economic problem for America. The next few decades will see growing skill gaps that will not be closed with the small increases in the numbers of high school students entering and graduating from college. Simply, the percent of high school graduates gaining postsecondary credentials is edging up very slowly—too slowly to meet the growing skill demands of employers and the American economy. Moreover, the size of the graduating high school cohorts is much smaller than the older baby boomer cohorts now making their way through the work force toward retirement.

Even if more high school students graduate from college, they will add only a net gain of perhaps 3 million workers with college credentials to the workforce by 2020.⁵

¹ Over the past decade, more high school graduates (almost 75 percent) are going on to college but a third fail to return after their first year and only one-half of the rest earn any degree.

² U.S. Department of Labor. 1999. Futurework: Trends and Challenges for Work in the 21st Century.

³ Ibid.

⁴ Cheeseman Day, Jennifer and Eric C. Newburger. 2002. “The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings.” U.S. Census Bureau Special Study # P23-210. U.S. Department of Commerce: Washington, DC.

⁵ Judy, Richard and Carol D'Amico, 1997. Workforce 2020: Work and Workers in the 21st Century. Indianapolis IN: Hudson Institute.

At the same time, the skill-based economy will continue to shift inexorably toward occupations requiring postsecondary skills. For example, the BLS projects a 22 percent increase by 2008 in jobs that will require at least some college. As Anthony Carnevale of ETS points out, the continuation of that trend until 2020 will produce about 15 million new jobs requiring college preparation and will result in a huge deficit of workers with postsecondary credentials.⁶ This estimated gap of 12 million college-educated workers will have a crippling impact on the U.S. economy. It can be filled only by a new commitment to helping adults already in the workforce get access to postsecondary education and gain the credentials associated with economic success.

Millions of working Americans know that they need these additional skills and that the economy will produce good jobs for those with good skills. According to the National Household Education Survey, 90 million adults were in some form of adult education in 1999, a stunning increase from just 58 million in 1991. Almost half of these were enrolled in work-related education and 18 million were seeking a postsecondary credential. About 3.5 million were seeking their first postsecondary credential.

Unfortunately, their efforts to gain those credentials are not well supported by their Federal or State Governments nor by the institutions of higher education that ought to encourage them. Notwithstanding the rhetoric of "lifelong learning," higher education financing, credentialing, and governance policies still are skewed narrowly toward traditional students coming directly out of high school into higher education. Working adults, because they have full-time job and family responsibilities, often lack the time, money, and flexibility of schedule to fit into this traditional mode of higher education.

Recent studies by FutureWorks and MDRC discovered that working adults get very little financial aid from Federal or State sources. First, those that hold full-time jobs are typically able to attend school only on a less-than-half-time basis, which renders them ineligible for most aid. Loan programs authorized by Title IV of the Higher Education Act are available only for those attending accredited institutions at least half time. Eligibility guidelines and institutional practices preclude Pell grants to all but a tiny group of less-than-half-time working adult students.⁷ Most State financial aid programs follow Federal eligibility guidelines.

Education tax credits are not helping. The more generous credit—the Hope Scholarship Credit—demands half-time or more attendance and goes mostly to the middle income parents of traditional students who are in their first 2 years of college. The Lifetime Learning Tax Credits available to less-than-half-time students are far less generous than Hope, they are poorly marketed, and they are not effectively targeted to modest income families. Moreover, because they are not refundable, they do not benefit low-income families.

The average annual earnings for full-time, full-year workers with only a high school degree was only \$30,400 in 2000. However, not all workers are in full-time, year-round employment; this is especially true of lesser-educated workers. The average earnings for high school graduates across the workforce was only \$25,900. Women in the workforce with only a high school diploma earned an average of only \$19,156, just over the poverty level for a family of four. Non-white workers with limited credentials had similarly lower earnings.⁸ Even if a family has a second wage earner (probably not full-time, full-year), it is hard pressed just to cover its basic living expenses. Educational expenses of \$1,500 to \$2,000 per year⁹ for a family struggling to cover these basic expenses can easily make postsecondary study seem out of reach.

But the problem is not just the absence of financing. Few institutions of higher education have developed programs and schedules that work for working adults. Programs that will lead to degrees and academically recognized credentials are frequently campus-bound; even if not, they often have prerequisites that are tough to fit in the schedule of adults with full-time work and family responsibilities.

⁶Carnevale, Anthony and Richard Fry, 2001. *The Economic and Demographic Roots of Education and Training*. Washington D.C.: National Association of Manufacturers.

⁷FutureWorks discovered that of 270,000 working adults with children and with family income of less than 200 percent of the poverty level who were enrolled at title IV eligible institutions in title IV eligible programs, only 7.7 percent got any form of aid—Federal, State, private, institutional, grant or loan. Only 3.5 percent of these, 34,000 families, got any Pell grant aid.

⁸Cheeseman Day, Jennifer and Eric C. Newburger, 2002.

⁹FutureWorks found no reliable summary data of college costs for less-than-half-time working adult students and estimates that tuition and fees might average in the range of \$750–\$1000 (much higher for those pursuing highly targeted, certification-focused programs at proprietary institutions) with other expenses of a similar magnitude.

Degree and other credential requirements often seem too daunting for a working adult attending part-time. Associate degrees that require 60 to 75 credit hours can seem an almost insurmountable barrier to a student who can take only three of four credits at a time. Adults who have been out of school for several years often require developmental or remedial courses and few colleges have integrated such basic skill building curricula into their for-credit, credential or degree-oriented courses. Many programs continue to require seat time in lieu of competency demonstration as a chief criterion of credentialing. Extended use of evening and weekend programs often requires programming arrangements that can raise accreditation problems for the programs and institutions. Their response frequently has been to make those offerings “non-credit” and to deny these students the opportunity to build a pathway of credentials to advance their career.

Few public colleges have successfully integrated preparation for industry-based certification into their for-credit, academically credentialed programs. Students who choose to pursue such credentials (as in information technology fields) are often required to pursue these programs in more flexible but also more expensive proprietary training schools where they sometimes sacrifice future ability to articulate their study into higher level programs in favor of short-term credentials. Workers seeking continuing credentialed education as they navigate toward higher paid positions in their occupation often are frustrated to discover that credentials earned in one institution cannot be applied to advanced study at another school.

There are important exceptions in the higher education system. Notwithstanding a decade of increases in tuition and fees that exceed the rate of inflation, some institutions, especially 2-year community colleges, are more financially accessible for limited income families. There are several colleges, 4-year as well as 2-year, that have worked hard to develop affordable programs that work well for working adults. They have organized credentialed programs that typically required one or 2 years of full time study into shorter modules, each with distinct credentials that can be “stacked” together over time into more conventional degrees and certificates. These schools are making more extensive use of “career ladders” in high-growth occupations that enable students to earn basic, industry-recognized certification quickly to gain entry to higher wage occupations with the option to continue training for more advanced credentials.

Additionally, some program offerings include open-entry/open-exit classes that allow students to progress at their own pace, classes that meet on weekends, and course offerings that combine distance-learning and on-campus support. Some colleges have created short-term intensive programs with curricula and scheduling formats that can better accommodate the schedule limitations of working adults.

Regrettably, however, these are exceptions—best practice, not common practice. In terms of cost and program structure, most institutions of higher education institutions are not easily accessible to working adults and they do not promote success.

Searching for Solutions

There appears to be little enthusiasm in the Congress or the Administration—or for that matter among postsecondary institutions—for changes in Pell grant or student loan eligibility that might better accommodate the financing needs of working adults. Concerns about the deficit probably will preclude any authorization changes that would lead to big increases in available funding. Groups representing the higher education institutions see Title IV of the HEA as a zero sum game and will oppose any efforts to “divert” Federal support from traditional to non-traditional students.

Even more importantly, we are increasingly convinced that squeezing a little more money out of title IV will not help much. The problems that discourage access and success for working adults seeking postsecondary credentials go very deep into the governance and financing of higher education. Solutions must come through reforms in how the States manage their higher education responsibilities.

For these reasons we have shifted our strategy toward the concept of a new title in the HEA aimed explicitly and exclusively at working adults. This new “Title X” would provide formula-driven grants (with incentive kickers) to States. These grants would help develop and implement a plan to change systems of governance, formula financing, student aid, curricula and program development, accreditation, credentialing, and faculty development in ways that would promote access and success for working adults seeking postsecondary credentials.

The proposed Title X of the HEA would not create new Federal student financing programs. Nor would it seek to divert existing program like the Pell Grants and the direct and guaranteed student loans away from traditional students toward working adults. Rather, this new approach would be focused on helping the States—the biggest financial stakeholder in higher education—explore how changes in the way

they govern and finance higher education can create better opportunities for access and success for working adults. Title X would provide modest formula-based grants and incentive funding to support States who choose to make these changes.

Basic Features of a New “Title X”

The Federal initiative embodied in title X would be time-limited (the 6 years of the new reauthorization). Under this program, each State would receive a planning grant in year one followed by annual, formula-based implementation grants in years 2 through 6. There would be monitoring, assessment, and enforcement mechanisms to keep States on track in their plans. Grants could include incentives for States to make linkages through the higher education system to other parts of the workforce and economic development systems, i.e., the Workforce Investment Boards and TANF agencies. These linkages are currently encouraged through the Workforce Investment Act and TANF legislation, but not reinforced through higher education legislation. In addition to the State grants, there might be some resources set aside for competitively awarded research grants and some demonstration grants directly to colleges and universities.

We would recommend the creation of a reserve for additional allocations to high performance States, providing incentives for outstanding work as well as sanctions for poor performance. Alternatively, the entire process could be made competitive, with grants going only to those States prepared up front to make a strong commitment to the postsecondary education of working adults. Under any approach, it seems important to make the Federal grants annually renewable, subject to performance, rather than allocating each State full funding in one large grant.

This concept is loosely modeled after the State Systemic Initiative (SSI) for math and science education carried out in the 1990s by the National Science Foundation, a program that was viewed favorably by the Congress, by the States, and by the State K–12 education establishments that were its beneficiary. First, SSI was explicitly “systemic” in its orientation. It gave the State grantees wide authority and discretion to deal comprehensively with all aspects of the multiple challenges of improving the student performance in math and science. Second, it was not financially open-ended. SSI had a fixed duration and the budget was planned in advance and known to all the key organizations in the process. Third, it had a mechanism to hold States accountable to their own performance objectives. SSI was not heavy-handed but it did monitor performance, assess results, and enforce corrective action as necessary.

Such a process lends itself well to this new initiative. Use of the Federal grants would vary from State to State depending on their particular diagnosis of problems and opportunities. Some States might place a special emphasis on developing new financial aid instruments aimed at working adults. Others might choose to focus their efforts around the development of new program and credentials that fit the scheduling barriers facing many working adults. Some States might look chiefly at their community colleges to implement this new act while others might ask their 4-year State colleges to play a major role. This diversity of approach would provide a rich learning environment and State teams working on these issues could be brought together regularly to exchange information and experience.

While this new legislation should avoid prescription and support flexible responses by the States, it should insist, like the SSI, on a systemic approach. Barriers to access and success for working adults are not just financial or curricular or schedule; they are all of these and more. States should be encouraged to examine a wide range of problems and solutions. The first year planning grant will be an especially important device to encourage the States to look widely at how their system of postsecondary education could better meet the needs of working adults.

The Department of Education would administer this program. Both the Office of Vocational and Adult Education and the Office of Postsecondary Education should be directly involved in its design and management. The Department may find it useful to establish an external authority to help monitor and assess the work of the States. An independent authority such as a commission may find it easier to make critical assessments when necessary and to enforce rigorous performance standards.

Additionally, coordination with the Workforce Investment Act, Temporary Aid to Needy Families, and Perkins Vocational Education programs will be important to the success of any State efforts to assist working adults in their educational pursuits. Representatives from these programs should be part of each State’s planning and implementation process.

This does not have to be a costly program for the Federal Government. Giving the States modest discretionary funding to help their institutions with careful research and with the design, testing, and piloting of new programs will be enormously important to States facing serious fiscal constraints. For example, a 6-year

Federal budget of just \$750 million (\$125 million per year) would provide the States an average of \$15 million for this multi-year initiative. (Of course the grants would be actually allocated on a population-adjusted formula.)

Success

The objective of this program is not simply getting adults to pursue continuing studies while they work; they are doing that in huge numbers, especially those that already have some postsecondary attainment. *Rather, the challenge is to help significantly larger numbers of working adults with only high school degrees gain recognized postsecondary credentials.* The objective is to get them into and through programs leading to a degree, certificate, or other credential that can help them improve their standard of living and that can improve the productivity rate and the U.S. economy.

This new Federal-State program would be both good economics and good politics. It does not require a large or open-ended financial commitment from the Federal Government. It would build a partnership with States and their institutions of higher education, which already see working adults as a huge new market segment. This strategy would find enthusiastic support from business groups as well as labor organizations. Facilitating the entry of adults to postsecondary education would send an important message to their children about the value of education and lifelong learning. As our economy continues to shift toward education and skills as the basis of competitive success, we cannot afford, economically or politically, to ignore the postsecondary educational needs and aspirations of millions of adults already in the work force.

RESPONSE TO QUESTIONS OF SENATOR ENZI AND SENATOR MURRAY BY ROBERT SHIREMAN

TICAS, THE INSTITUTE FOR COLLEGE ACCESS AND SUCCESS, INC.,
May 19, 2005.

Hon. MIKE ENZI,
Chairman,
Committee on Health, Education, Labor, and Pensions,
U.S. Senate,
Washington, D.C. 20510-6300.

DEAR CHAIRMAN ENZI: Thank you for providing me with the opportunity to testify at the April 28 hearing on access and accountability in higher education. I am honored to have been included. I hope the hearing provided you and the members of the committee with a helpful introduction to many of the critical issues that the Nation faces as we attempt to improve postsecondary educational attainment.

A theme that was repeated throughout the hearing was the important role States play in college access, and the need for a more thoughtful and productive connection between Federal- and State-level postsecondary policies. The approach that I would recommend is Federal encouragement for States and institutions to pay attention to their enrollment of students from the lower half of the economic spectrum. This could be accomplished through block grants to States, which the States would then use to provide modest incentives for campuses to enroll students who do not come from high-income families.

For example, a State could use its Federal funds to provide each campus, public and private, with a small amount of additional funding for each student who qualifies for a Federal Pell grant. The campus could use the funds for financial aid or for pre-college outreach to disadvantaged communities, or to provide assistance to families in completing the financial aid application. This would have several effects. First, selective universities that enroll few low-income students would have a reason to review their policies and practices to determine if there are ways that their numbers could be increased. Second, all colleges would have greater incentives to retain their lower-income students through graduation. In fact, a State may decide to link its incentive to low- and moderate-income students who transfer or graduate. (As Brian Bosworth said at the hearing, colleges get paid for enrollment, not for the degrees they confer.) In addition, campuses would have a small incentive to ensure that low-income students are aware of the financial aid available, and that they have assistance in completing the paperwork.

There are a variety of ways that such a Federal program could be designed, and ways that States might implement it. Given the number of times that the State's role was mentioned at the hearing, I would encourage you to explore possible approaches, or to ask the Advisory Committee on Student Financial Assistance, on

which I serve, to seek input from researchers, State officials, and the higher education community.

Below I respond to each of the written questions that you provided last week.

Question 1. Transfer of Credit. Given that a growing percentage of students will attend more than one postsecondary school or college during their academic career, what changes can we make in the Higher Education Act so that students do not have to duplicate coursework unnecessarily?

Answer 1. The U.S. higher education system is revered worldwide for its excellence and its diversity. That is, not only the diversity in ethnicity, gender, age and socioeconomic background of the students, but the enormous variety—and level of rigor—of the course offerings and majors. Even courses with the same names—introductory microeconomics, biology, or political science, for example—are often not alike at all. Part of the strength of our higher education system is the independence of each institution. This includes the prerogative of each college and university to determine what courses from other institutions will count toward a degree. In the college marketplace, students who don't like those decisions can go elsewhere, putting competitive pressure on the institutions to reconsider their denials of credit.

That said, there is a problem when students take courses they believe will transfer, only to discover later that they do not. The issue seems to be poor information, or, in some cases, misleading claims by a school. It would be worth exploring whether there is a role that the Federal Government could play in improving the information that students have about the portability of credits from any particular institution. The American Association of Collegiate Registrars and Admissions Officers has made some recommendations in that regard.

Question 2. Parental Involvement in the Financial Aid Process. Parental involvement is one of the strongest indicators of success in education, regardless of whether it is early, elementary, or postsecondary education. What role can and should parents play in helping students? When there is limited or no parental involvement, what kinds of early awareness activities can help low-income students understand their options to continue their education and learn about available support?

Answer 2. From stimulating early brain development to planning and saving for college, there are many efforts around the country to encourage parents to get more involved in the education process and to help children who lack parental support. A growing number of States, schools, and community-based programs are trying to raise awareness about college: why it's important, what it takes to get there, and how to pay for it. They create online resources, develop and distribute pamphlets, workbooks, and posters, and use various marketing techniques. Some deliver direct services such as workshops, scholarships, hands-on assistance with financial aid and college application forms, counseling and mentoring.

Here are just four examples of the many current programs and resources aimed at increasing college awareness and educational success:

- Indiana's *Learn More Resource Center* (<http://www.learnmoreindiana.org>) offers checklists, tips, and planning tools for parents of children at different stages of development, from infancy through high school. Its resources for students range from a learning-style assessment tool to college profiles, cost comparisons, and financial aid information. It also provides a range of material for elementary, middle, and high school counselors.

- *College for Texans* (<http://www.collegefortexans.com>) is a wide-ranging statewide program with elements such as a theater troupe that performs motivational, student-developed plays at high schools; a storybook for elementary students with a companion teaching curriculum; radio and television advertisements; and online resources about how to choose a college and explanations of the different tests that are important for high school graduation and college admission.

- *California Cash for College* (<http://www.californiacashforcollege.org>) raises awareness of available financial aid resources and holds workshops to help students and parents fill out the application forms.

- *Cleveland Scholarship Programs* (<http://www.cspohio.org/>) offers scholarships and other services, such as one-on-one help through online mentoring and placing advisors in schools and neighborhood sites.

While awareness efforts may try to reach children and families as early as preschool or as late as senior year, the one thing successful programs have in common is recognizing that awareness is only the first step. In fact, surveys consistently find that a large majority of students across the income spectrum already think college is a good idea and say they hope to attend. Most parents would like to see their children go to college, including parents with no college experience themselves. The

real challenge is to help translate these aspirations into actions, such as taking higher level courses and studying hard in school, visiting a college campus, applying for financial aid, or registering for the SAT.

To try to increase college preparedness and participation, more and more national, State, and local college access campaigns are using marketing techniques aimed at students, parents, teachers, and others who play important roles in the education process. Some campaigns are built on a strong understanding of how to use marketing to change behavior, not just awareness, while others are still making that connection.

Working with a coalition of State agencies and national non-profit organizations, TICAS has developed an extensive web-based resource to support effective marketing and outreach practices in the college access field. The site, to be launched later this year, provides a forum for college access professionals to share effective strategies, avoid common mistakes, and find creative ideas. It includes a step-by-step guide, a multimedia gallery of materials, campaign profiles, and helpful tools and resources. The site's sponsor, the Pathways to College Network (www.pathwaystocollege.net), also maintains a database of the latest research on pre-college outreach and family involvement, as well as a searchable list of pre-college programs around the country.

As the college access field expands and evolves, and we learn from the results of current efforts, policymakers and others will have many opportunities to advance best practices for young people who need more help preparing for college than their parents can provide.

Question 3. Non-traditional Students and Financial Aid. Today's college students are very different from a decade ago. Working adults and independent students with dependents have different challenges and needs. How might Congress help to personalize student aid packages to address individual circumstances to better assist disadvantaged students and workers who are returning to school because they need additional training?

Answer 3. In order to be more successful in postsecondary education and training programs, the students you describe need adequate financial aid, so that they can invest more time in the learning process. By doing so, they are more likely to emerge with knowledge, skills, and credentials that will help them secure a higher-paying job. The Advisory Committee on Student Financial Assistance recommended some changes to the Federal need analysis process that would help working adults and independent students with dependents, including:

- Allow dislocated workers to report their projected current year income. The prior-year income that is used by most applicants is not relevant when a worker has lost a job.
- To reduce the work penalty and encourage savings, increase the Income Protection Allowance by at least \$1,000 for all students. This would allow students to earn more during the year without it affecting their aid eligibility for the following year.
- Reduce the assessment rate on student earnings for independent students without dependents from 50 percent to 40 percent (for those with dependents, the rate is already as low as 22 percent, depending on their income and other factors). This would protect more of their earnings above the Income Protection Allowance from need analysis.
- Automatically provide the maximum Federal aid (i.e., assume zero expected family income) for independent students with dependents whose income is below \$25,000. (This auto-zero threshold is currently \$15,000.)

I would also suggest carefully exploring the role of loans for non-traditional students. Borrowing money is not likely to be a welcome prospect for a dislocated worker or a low-income parent. The dangers, and the competing demands, are too great. Congress needs to address this problem, either by providing greater grant aid, or by reducing the hazards of loans by protecting vulnerable borrowers from the prospect of excessively burdensome payments.

Question 4. Student Loan Programs. In your testimony you suggest that Congress could create some more efficiencies within the student financial aid system by encouraging schools to participate in what you call "the most cost effective" student loan program, and using the assumed savings for additional Pell grant funds for the schools that participate. I am concerned, and I know many of my colleagues here are concerned, that such an approach would create a clear inequity in the student financial aid process. But my larger concern is how small, rural States like Wyoming would be affected by such an approach. Since many of our financial aid offices are very small, the schools in my home State of Wyoming are poorly equipped to run a student loan program themselves, and are much better served by allowing a

private lender to provide services to students. If your approach were adopted, it seems to me the result would be a discriminatory policy between schools in smaller, rural settings and larger schools in more urban areas. Can you explain to me how the approach you recommend would be fair to students in States like mine?

Answer 4. I will address your question in three parts:

- A. School duties in the Federal loan programs.
- B. Inefficiency and inequity in the Federal loan programs.
- C. The options for the committee.

A. School duties in the Federal loan programs. It does seem logical that there would be a lot of duties that lenders perform in the government-guarantee program (FFEL) that would become school responsibilities under direct lending. But that is not the case. Even in FFEL, schools already do most of the work, including:

- determining borrower eligibility;
- calculating the loan amount;
- determining the disbursement schedule;
- certifying loan eligibility;
- performing entrance counseling;
- accepting the loan proceeds from the lender;
- delivering the loan proceeds to the student;
- monitoring student enrollment; and
- providing exit counseling before students enter repayment.

What's left to be done by the lender? One duty that schools don't perform in FFEL is generating the promissory note. In direct lending, schools may choose to take on this extra duty. But they are also offered an alternative originator (a private contractor hired through a competitive contract by the Department of Education) that can perform the function.

In a report last year, the Government Accountability Office did not find significant added burdens on direct loan schools. Instead, GAO found that the direct loan program offers schools several administrative advantages, including: "(1) streamlined loan delivery, (2) greater control over loan processes, (3) timely delivery of money to students, and (4) ease of tracking loans over time." (GAO-04-107).

So why do some schools complain of extra work in direct lending? GAO did find one duty that some schools found difficult, and contributed to some of them moving back into FFEL. These schools had trouble reconciling their records of the loan funds they received with the amount of funds actually provided to students. In the FFEL program, there is no attempt to reconcile the amount of loans that lenders claim at a school with the amounts the school actually delivers to students. In other words, some schools prefer the guarantee program because there is less accountability for the funds.

Schools of all types participate in the Direct Loan Program: big, small, urban, rural, public, non-profit, for-profit, 2-year, 4-year, graduate, certificate. To be sure, some of the responsibilities and processes in direct lending are different than in FFEL, and school officials do need training when they switch from one loan program to the other. These differences are not significant enough to justify billions of dollars of additional taxpayer spending. Also, the added accountability protects taxpayers from fraud, abuse and costly errors.

B. Inefficiency and inequity in the Federal loan programs. Since the creation of the Direct Loan Program, FFEL lenders and intermediaries—many of them, ironically, at State government agencies—have attempted to create the impression that FFEL is a more “private sector” program. But, as President Bush pointed out in his latest budget, the guaranteed student loan program specifically fails to make use of market competition to reduce program costs for taxpayers. The President’s budget singles out FFEL for criticism, saying its problems “lead to unnecessary costs for taxpayers and prevent the program from achieving the efficiencies the market is designed to provide.”

The Department of Education has no mandate or authority to use market competition to keep costs down in the FFEL Program. Instead, the program operates through a long list of subsidies set at arbitrary levels by Congress. When circumstances change, or when providers do not perform as they should, the Secretary of Education can do little about it. Often, the committee-drafted provisions are vague and subject to abuse. The recent experience with loans carrying a 9.5 percent interest rate guarantee is a case in point. Another example is the enormous future taxpayer costs of the current low-rate consolidation loans. The same low rates could be provided at lower taxpayer cost if the lender subsidies were set by a market process rather than rates set in statute.

There is no market-based explanation for any of the FFEL fee and subsidy entitlements, which are cemented into the law by congressional action, requiring the gov-

ernment to pay high fixed prices regardless of actual market costs. A sampling of the federally guaranteed payments to FFEL lenders and intermediaries includes:

- Thirty-six federally-backed “guaranty agencies” are entitled to a .4 percent “loan processing and issuance fee,” paid by the Federal Government.
- These agencies are also entitled to a .1 percent “account maintenance fee,” paid by the Federal Government, and they have the legal authority to charge students a 1 percent “guarantee fee.”
- Thousands of banks, as well as secondary market entities that purchase loans from banks, are entitled to quarterly returns equal to the rates on commercial paper plus 2.34 percentage points during repayment and plus 1.74 percentage points during the in-school and grace period, assured by the Federal Government. And some are entitled to payments that are much higher than that.
- If a borrower’s payments are late, the guaranty agency has an opportunity to encourage the borrower to make a payment. If successful, the agency is entitled to a 1 percent “default aversion fee.”
- If the borrower defaults, the lender or secondary market is entitled to receive a minimum payment of 98 percent of the principal and interest.
- If a loan defaults, the guarantee agency is entitled to keep 28 percent of any amounts it is able to collect.

In contrast to all of the above, the only obligation in the Direct Loan Program is to students. The program’s costs are determined using market competition by private sector providers of capital and private contractors that do loan servicing and collection. The most recent servicing contract was very competitive, resulting in a billion-dollar reduction in administrative costs. Many of the companies that work at competitive rates for the Direct Loan Program are simultaneously working for FFEL lenders who are paid excessive subsidies for the very same kinds of work.

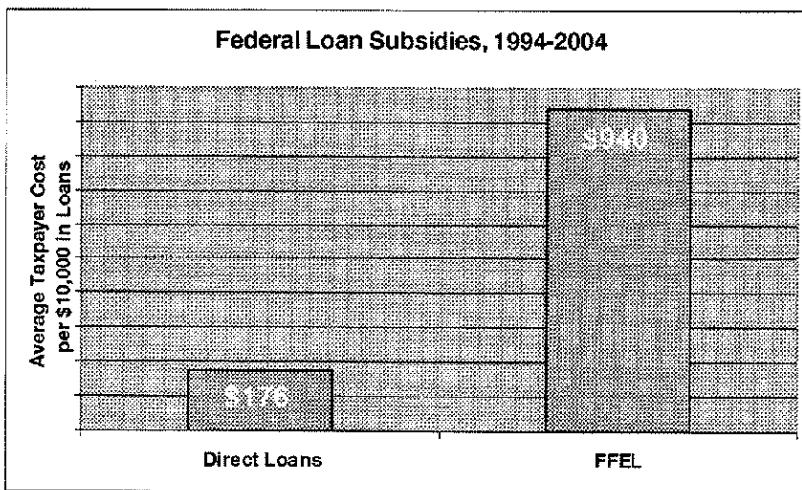


Figure 1 Source: Budget of the U.S. Government, Appendix, page 371.

You asked about inequities associated with a college’s choice of loan programs. The answer is that while campus administrators may prefer one program to another, they are able to administer either loan program without serious difficulty. The real inequity in the Federal student loan system is shown in the chart above: the large costs paid by taxpayers over the past 10 years to support the FFEL program. If the goal is to have two loan programs that compete on a “level playing field,” then the programs as currently designed do not approach that goal. The taxpayer costs of FFEL—no matter how you add them up—are huge compared to the Direct Loan Program. This inequity has been documented repeatedly by highly respected budget analysts and accountants, including OMB, GAO and CBO.

C. The options for the committee. There is an enormous need for increased investment in higher education and other postsecondary training. A good case can be made for increased public investment, given the economic and social returns to education. But another way to increase the Federal investment is to make the current funds go further, by making aid programs more efficient.

The Student Aid Rewards Act is an important approach to consider. But as the chairman of the committee, you do not need to accept it as written. I would recommend you consider its salient points separately, rather than as a package, and develop your own approach. The key questions raised by the proposal are:

- Should the Federal student loan system be as efficient as possible, without imposing unreasonable administrative or risk burdens on institutions of higher education?
- How should efficiency be measured?
- How can efficiencies be achieved?

And most importantly:

- How should the resources freed up through improved efficiency be used?

Efficiency generates new investments that can help students, and expansion of the Direct Loan Program is one way to achieve efficiencies. The program was proudly developed by a number of officials in the first Bush Administration. A group of them, including a chairman of the Republican National Committee, wrote:

Over the years, the guaranteed student loan program has developed a degree of regulatory and administrative complexity that now undermines its fundamental integrity and effectiveness. Replacing the GSL structure with a streamlined structure will mean not only enhanced accountability and budget savings, but also a more rational delivery system that will particularly benefit students and educational institutions. In particular, we believe direct loans will also ensure greater responsibility and accountability by participating educational institutions.

A direct loan program will mean replacing the role currently played by many banks, guarantee agencies, and secondary markets with a *more competitive approach*. The intent is not to harm these participants in the existing program but rather to recognize that more competitive, efficient, and practical ways exist to provide student loans. We hope that as the Congress considers direct loans it will look beyond the misleading information that is being spread by representatives of those entities who have a direct financial stake in preserving the status quo.

By making better use of competition and markets, the Direct Loan Program has produced the efficiencies its designers hoped it would achieve. But neither it nor the details of the FFEL Program are immutable. There are certainly other designs, should you choose to explore them, that could serve students equally well while reducing costs and risks to taxpayers. The resulting savings could still be invested in reforms to assist dislocated workers, improve enrollment and graduation of low- and moderate-income students, or provide early information about college to children in high-poverty schools.

Many people will oppose improvements in efficiency. Listen to them, but then seek independent advice from experts and accountants who do not have a conflict of interest. Then make up your own mind.

Question 5. 9.5 percent loans—Response to Senator Murray. In your response to Senator Murray's question, you mentioned the increase over the last 2 years in the volume of 9.5 floor loans. It appears that this was overwhelmingly the result of the transferring and refunding opportunities that were closed off under the Taxpayer-Teacher Protection Act. My understanding is that the volume of 9.5 floor loans has gone down since passage of that Act—the intended result of the statute. You also said that the 9.5 percent subsidy payments may actually be increasing because recycling allows lenders to “take proceeds from one pot and move them to another.” Could you explain in detail the process by which you believe lenders can increase floor loan billings via recycling alone? Also, could you explain why this process, if it is indeed occurring, has not resulted in growth in the volume of loans being billed at the 9.5 floor rate?

Answer 5. Under the recycling provision, loan companies can create new loans carrying the 9.5 percent guarantee by using proceeds from prior 9.5 percent loans as capital. Specifically, the law that Congress passed last fall gives the favorable interest rate treatment to new loans made from “collections or default reimbursements on, or interest or other income pertaining to” prior loans carrying the 9.5 percent guarantee. This allows a lender to maintain or even increase the total volume of 9.5 percent loans, even as borrowers repay the old loans.

The most recent data on lender billings (“Closed Loophole Hasn't Cut Subsidies for Student Loans: Payments to Lenders Are as High as Ever,” *New York Times*, April 10, 2005) raised the further question of how billings could increase if volume was unchanged or reduced. The example that I described at the hearing works like this:

Assume a simplified portfolio in which a loan company has two pots of loans, one guaranteeing the 9.5 percent return, and the other carrying the interest rate guarantee that applies to other Federal loans. In period 1, the two portfolios contain the same mix of loans, simplified here as just two fixed-rate consolidation loans each:

Year 1:

<u>Regular Pot</u>	<u>9.5 Percent Pot</u>
Loan A: \$10,000 Borrower rate: 7% Borrower-paid interest: \$700 Taxpayer-paid Subsidy: ~0	Loan C: \$10,000 Borrower rate: 7% Borrower-paid interest: \$700 Taxpayer-paid Subsidy: \$250
Loan B: \$10,000 Borrower rate: 3% Borrower-paid interest: \$300 Taxpayer-paid Subsidy: ~0	Loan D: \$10,000 Borrower rate: 3% Borrower-paid interest: \$300 Taxpayer-paid Subsidy: \$650

Total Loan Volume: \$40,000
Total Borrower-paid Interest: \$2,000
Total Taxpayer-paid Subsidy: \$900
Total Paid to Loan Company: \$2,900

In this scenario, under today's interest rates, the loan company would receive little or no special allowance payments from the Department of Education for Loans A and B in the regular pot. In the 9.5 percent pot, the Department of Education would be required to pay the loan company the difference between the 9.5 percent rate and the borrower rate, a subsidy that would equal \$250 for Loan C and \$650 for Loan D, for a total government payment of \$900. On the \$40,000 in loans, the loan company would take in a total of \$2,000 in interest paid by the borrowers and the additional \$900 from taxpayers, for an average return of 7.25 percent.

But it makes sense for loan companies to do everything they can to maximize their returns. How might they improve upon the 7.25 percent return? The recycling language allows the company to use any "income pertaining to" a 9.5 percent loan to make a new loan. This means that a company could "sell" Loan C to the Regular Pot, and use the proceeds to "buy" Loan B into the 9.5 Percent Pot. In other words, Loans B and C switch places. The result would be as follows:

Year 2:

<u>Regular Pot</u>	<u>9.5 Percent Pot</u>
Loan A: \$10,000 Borrower rate: 7% Borrower-paid interest: \$700 Taxpayer-paid Subsidy: ~0	Loan B: \$10,000 Borrower rate: 3% Borrower-paid interest: \$300 Taxpayer-paid Subsidy: \$650
Loan C: \$10,000 Borrower rate: 7% Borrower-paid interest: \$700 Taxpayer-paid Subsidy: ~0	Loan D: \$10,000 Borrower rate: 3% Borrower-paid interest: \$300 Taxpayer-paid Subsidy: \$650

Total Loan Volume: \$40,000
 Total Borrower-paid Interest: \$2,000
 Total Taxpayer-paid Subsidy: \$1,300
 Total Paid to Loan Company: \$3,300

With the same number of loans and same amount of loan volume in each pot, and with the borrowers paying the same rates as in year 1, the loan company is able to increase the special allowance payments, which the Department of Education is contractually obligated to pay under Federal law, by more than 40 percent through recycling. With the volume of loans unchanged, the borrowers still pay \$2,000. But the total taxpayer subsidy increases to \$1,300. The company's average return jumps to 8.25 percent, a nearly 14 percent increase.

The use of statutory entitlements, rather than market competition, to determine loan subsidies is an invitation to abuse and the reason for the ballooning payments to student loan companies over the last 2 years. Instead of analyzing and fixing each problem as it surfaces, Congress would be wise to authorize market-based approaches that keep program costs down.

I have heard that part of the reason for maintaining the 9.5 percent payments and other excess subsidies is that some non-profit organizations use their proceeds for good works. One could achieve the same end far more efficiently by ending the subsidies and using the savings to provide such groups with as much or more direct aid.

Ending recycling is not the only way to reduce the costs of the abuse of the 9.5 percent provision. In addition to stopping recycling, Congress could further reduce Federal payments by authorizing a program to offer repayment incentives or re-consolidation opportunities to borrowers with 9.5 percent loans. By paying off their loans quicker, or shifting to capital providers whose returns are set competitively, voluntary borrower actions would significantly reduce taxpayer costs. Congress could apply those savings to increased student aid.

Again, I really appreciate the honor of testifying before the committee. Please do not hesitate to contact me if you have any further questions, or if any of my answers require clarification.

Sincerely,

ROBERT SHIREMAN,
 Director, TICAS, Inc.,
 Visiting Scholar,
 U.C. Berkeley Center for Studies in Higher Education.

RESPONSE TO QUESTIONS OF SENATOR MIKE ENZI BY PHILLIP F. VAN HORN

Question 1. Rural Access to Postsecondary Education. We know rural students face many challenges getting to school, and especially postsecondary school. Are there any best practices from Wyoming or other States you can suggest Congress look to as we amend the Higher Education Act to address the needs of rural students, and what impact has the 50 percent rule had on access to higher education in rural areas?

Answer 1. While Wyoming Schools have done an admirable job in balancing workforce training demands placed on them by employers and all stakeholders in their communities, the 50 percent rule means schools are forced to limit the number of students and the number and kinds of courses that can be offered through distance-learning methods. The decades-old regulation has a greater negative impact on rural students and particularly older working adult students who desire to upgrade their workforce skills, but who can't find the time within their family and work obligations to travel to a classroom.

Question 2. Transfer of Credit. Given that a growing percentage of students will attend more than one postsecondary school or college during their academic career, what changes can we make in the Higher Education Act so that students do not have to duplicate coursework unnecessarily?

Answer 2. Respectfully, the matter of unnecessary duplication of coursework is almost non-existent in Wyoming. There may be anecdotal exceptions, but the community colleges and the University of Wyoming, have collaborated to make transfer of credit a relatively seamless process for students. Our recommendation is that institutions across the country look at the Wyoming model.

Question 3. Parental Involvement in the Financial Aid Process. Parental involvement is one of the strongest indicators of success in education, regardless of whether it is early, elementary, or postsecondary education. What role can and should parents play in helping students? When there is limited or no parental involvement, what kinds of early awareness activities can help low-income students understand their options to continue their education learn about available support?

Answer 3. Countless research studies and initiatives over the years all agree on at least one common variable: Parental encouragement and intervention is the key to a young person's ambition to pursue higher education. Parents should talk about college as a reality as soon as a child can read.

Absent parental involvement, encouragement and intervention by a significant mentor is critical. Federal programs such as the TRIO and GEAR UP are notable programs, but are inherently limited by the Federal budgetary and reauthorization processes. Private initiatives provided by the student loan industry are significantly contributing to early awareness efforts. As I stated in my oral testimony 3 weeks ago, our job goes beyond working with students who are already college bound. WSLC early-awareness programs include taking 6th graders to college campuses under our College For a Day program and sponsoring the Women In Science program that encourages elementary and secondary female and male students to explore education and a career in the sciences. We are working with the Hispanic Organization for Progress and Education (HOPE) and Latina and Latino leaders in communities to instill the confidence among young Hispanic students that post secondary education is accessible, affordable and imperative. Successful early awareness efforts will include private sector involvement, similar to what WSLC and other members in the FFELP community are doing.

Question 4. Non-traditional Students and Financial Aid. Today's college students are very different from a decade ago. Working adults and independent students with dependents have different challenges and needs. How might Congress help to personalize student aid packages to address individual circumstances to better assist disadvantaged students and workers who are returning to school because they need additional training?

Answer 4. Frankly and respectfully, personalization of student aid packages is best founded with school financial aid professionals. These men and women have one overriding commitment: To serve all students in need and to the extent practical they will individualize each student's aid package. Congressional assistance should come in the form of simplifying the Federal student aid process and the underlying student aid formula as recommended by the Advisory Committee on Student Financial Assistance in January 2005 and allowing financial aid professionals on campuses the greatest flexibility possible to address individual needs.

Question 5. Student Loans. When Congress made the decision to establish a 9.5 percent return on certain tax-exempt bonds, would you say that the intent of Congress was to increase or decrease the subsidies to holders of these bonds and was the initial effect of this differential treatment an increase or a decrease in the subsidy to these bond-holders?

Answer 5. For clarification purposes: subsidies do not go to the bondholders. Bondholders are the creditors, providing the capital used by the issuers who make and acquire student loans. We assume your question is meant to be directed to the loan holder.

As for the Congressional intent for creating the 9.5 percent floor return, it was neither to increase nor to decrease the return to the lender or loan holder. Rather, it was to provide stability for tax-exempt issuers and holders of student loans so that there would continue to be a reliable source of funding for educational loans and was applicable only to bonds originally issued prior to October 1993. Bond interest rates were significantly higher at that time.

Less than one-quarter of Wyoming Student Loan Corporation's portfolio is eligible for the 9.5 percent floor. These earnings allow the corporation to invest in early awareness programs. The corporation will experience a 28 percent reduction in its 9.5 percent floor-eligible portfolio by December 31, 2006. Another 31 percent of the remaining portfolio will begin amortizing in May of 2007. Other outstanding bond issues, refinanced under the intent and letter of the law, will amortize over the next 25 years. We have not increased our 9.5 percent holdings; contrary to those who would have us believe all student loan lenders are taking advantage of the program.

Question 6. Also, what would be the impact on the ability of loan providers, and financial markets in general, to originate additional student loans if the Federal Government took a position that the terms and conditions of bond issues or other asset-backed securities could be changed after the original issue? Would the savings to the Federal Government be worth the market instability that such a change could trigger?

Answer 6. The potential adverse effects of the scenario described in #2 above are so numerous; I cannot contemplate them all. At a minimum, the following would occur:

For Wyoming Student Loan Corporation: The underlying economics of ALL outstanding debt financings, not just the 9.5 percent portfolios, as well as future financings, would no longer be valid, triggering a likely downgrade of our bonds, with a corresponding increase in the rates we would have to pay. The end result would be the corporation's inability to meet its contractual commitments to bondholders and our ability to meet the need of Wyoming's students. This scenario would be played out across the country.

One of the great strengths of the FFELP for the past 40 years has been the elasticity of the private financial markets to expand or contract with the demand for student loans. Any retroactive change would have a broad impact because it would raise the possibility of future retroactive changes and would disrupt markets so significantly that many FFELP providers could no longer operate.

Mr. Chairman, Wyoming Student Loan Corporation and the other non-profit student loan providers across the country are in a unique business: We are constrained by laws that permit us to offer one product at a price mandated by Congress and we are regulated by our competitor (the Department of Education and the direct loan program) to whom we pay fees.

The only efficiencies the corporation can achieve come through controlling our liabilities and overhead, including executive compensation, in order to continue to provide low-cost loans so that more students have access to higher education.

Beyond just the student loan financing markets, the imposition of a retroactive change would have a much greater impact than simply the cost of the change. The message to all financial markets would be clear: the reality that the Federal Government would change laws retroactively would destroy the full faith and credit principle. Any debt financing, including municipal bond issues for streets, water, sewer and other needs would come to a halt, or, at the very least, would carry a risk premium, forcing municipalities to pay higher rates to attract bondholders, resulting in higher local taxes.

Mr. Chairman, I can see no scenario in which purported "savings" to the Federal Government would be worth the risk of eliminating private capital from the student loan program and destabilizing the financial market for municipal securities.

Thank you for the opportunity to respond to these questions. On behalf of Western States Learning Corporation and Wyoming Student Loan Corporation, we look forward to providing any additional information we can to assist you and the committee.

[Whereupon, at 11:34 a.m., the committee was adjourned.]

